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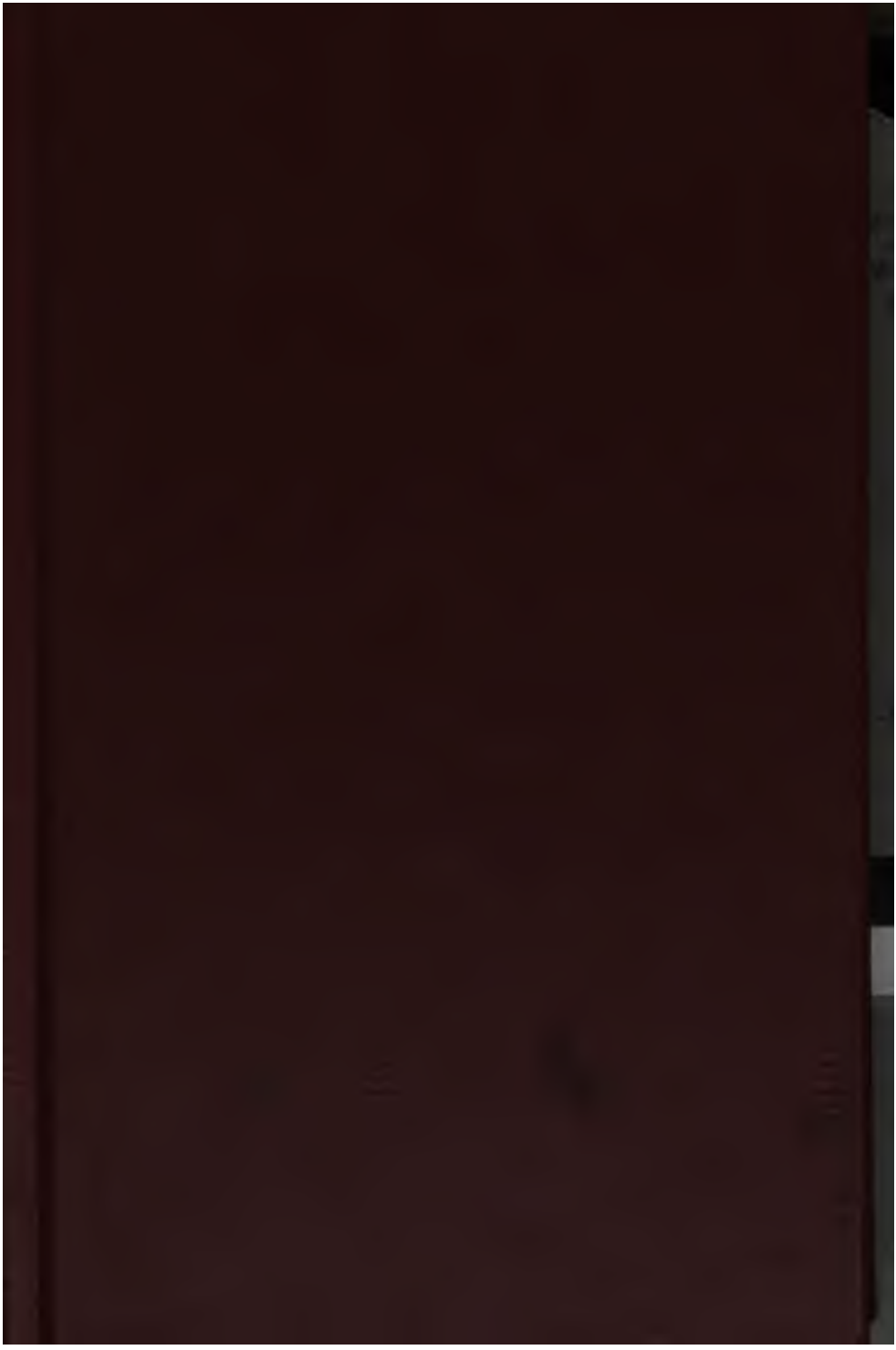

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THE

THEORY

OF

MONEY AND BANKS

INVESTIGATED.

BY GEORGE TUCKER,

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BOSTON:

CHARLES C. LITTLE AND JAMES BROWN.

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PREFACE.

THE reverse of what Hobbes, with as much justice as wit, says of words, may be said of bank notes: they are the money of wise men, and the counters of fools. When prudently and judiciously used, they perform all the functions of money; but, when foolishly made cheap by excess, they are little better than counters, to mark how much has been lost by the gambling of the community.

There are few subjects of a practical character on which men differ so widely as have the people of the United States on the policy of banks, or on which their conflicting opinions have been pushed to such violent extremes. Thus, while the more zealous friends of these institutions, confounding wealth with its signs, overrate the utility of paper credit, and attribute to it a creative power which metallic money itself does not possess, their opponents, not distinguishing between the uses and abuses of banks, see, in those useful, almost indispensable, handmaids to commerce nothing but mis-

chief, and regard them as really impeding the wealth of the nation, and even as injurious to its morals and dangerous to its liberties. Both parties, seeing the glaring errors of their adversaries, have been the more strengthened in their own.

It has long appeared to me, that, if the principles of banking and credit were exhibited in that scientific form of which they were susceptible, it might go far to lessen these differences of opinion, and thus advance the cause of truth in a matter of practical policy, in which error may so materially affect the national welfare.

The present time seems to me peculiarly favorable to the execution of such a purpose. The ardor with which banking has been lately prosecuted both in England and in most parts of this country, notwithstanding the opposition it has encountered, and the ample developments to which it has led, has furnished a stock of materials for a just theory of money and paper credit which has never before been possessed. We may here learn, from sources equally full and authentic, the practical operation of banks, under every diversity of circumstances, as to density of population, as to city or country, and as to every branch of productive industry, whether of agriculture, commerce, or manufactures.

It was with these views and under these encour-

agements, that the present work was undertaken. I am but too sensible of the imperfect manner in which I have profited by the favorable circumstances I have mentioned.

In thus adverting to the sources from which I have drawn most of the materials for this work, I cannot forbear to particularize the several reports which have, at different times, been made to both houses of congress, especially those of Mr. Woodbury, comprehending, as they do, not only an unprecedented mass of statistical facts, but also the bank reports made to the legislatures of particular states. These constitute a mine of wealth in this department of science, which, though laborious to work, from the mass of insignificant details with which it is overlaid, will richly reward him who has the patience to explore it. I must also express my obligations to Mr. McCulloch's Commercial Dictionary, that very useful and commonly correct depository of facts; to Kelly's Cambist, a model of succinct perspicuity and scientific accuracy; and to the Financial Register, published by Mr. Waldie, of Philadelphia, both as a record of facts, during the most important period in the annals of banking, and as the vehicle of much ingenious speculation.

In thus presenting the result of my observations and reflections, I am unconscious of being actuated

by any party feeling, and I have sought not to excite any. There is, indeed, but one chapter in the book which can afford any color of ground for the charge, and that I should have omitted, had it not been necessary to complete my views of the best monetary system for the United States. With the opinions I entertained, I could not permit the fear of unjust censure to divert me from what seems to be the path of duty.

University of Virginia, Feb. 14, 1839.

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PART I.

ON MONEY.

CHAPTER I.

ON THE NATURE AND FUNCTIONS OF MONEY.

THE close connection which exists between the money of a country and its industry and prosperity is sufficiently obvious to the most superficial observer; but how far it is the effect and how far the cause of that industry and prosperity—to what extent it may be advantageously substituted by paper—whether its substitutes should be regulated by law, and, if so, what are the best modes of regulation,—are among the nicest and most unsettled problems in political economy. They constitute the engrossing theme of the day, and have given rise to that diversity of views which is ever exhibited when men's interests and passions mingle in their speculative reasonings. The writer of the following sheets flatters himself that he enters on the discussion of these questions free from any undue bias, personal or political; and he is con-

scious of no motive except the wish to discover and disseminate the truths of a favorite science.

It may materially assist our inquiries, to give a preliminary consideration to the nature and functions of money generally.

The use of money, like many other of our most valuable institutions, has grown up of itself, rather than was the result of human foresight, contrivance, or deliberate coöperation.

In the rudest stages of society, men would, for their convenience, be induced to make exchanges, by which each party would obtain something that he valued more than that which he parted with. A successful hunter or fisherman would be willing to exchange a portion of his spoil for the skin, or the arrows, or other weapon of his brother savage who was in want of food; and these exchanges would increase as the property of individuals increased, and their wants multiplied with the progress of society. At first the only object of exchanges would be to serve the present purposes and necessities of those who made them; but when commodities began to be stowed away as a provision for the future, further exchanges would be made with a view to this object, and articles which were perishable and not wanted for immediate use, would be exchanged for some commodity whose value was more permanent. Besides, as commerce between distant places arose, by reason of the diversity of their respective products, some articles would furnish fitter materials for such

commerce than others, and would be sought for that object. The qualities which would fit any commodity for distant traffic, would be not only security from decay, but also great portability, that is, great value in proportion to its bulk. Hence diamonds and other precious stones, gold, silver, silks, spices, and gums, which possess great value for their volume and weight, constituted the materials of the commerce of Africa and Asia, when it was carried on over land.

In this way some commodities would be more sought than others, not so much for any other quality they possessed, as the single one of being more fit for exchanges, and because, on that account, they could be readily converted into what the possessor wanted. Being thus in more general request, they would gradually become the common instruments of exchange, so that every one who had any thing to sell, would readily take those commodities in payment, knowing that he could re-exchange them for what he might subsequently wish to purchase. Thus, individuals, instead of confining themselves to the barter of their property for such commodities as they could immediately use, were content to exchange them for such as were in general demand; so that every one could effect by two sets of exchanges what most persons would find impracticable by one.

As soon as some one or more commodities thus became the general instruments of exchange, and, consequently, the general objects of desire, they would also become the standards of value of all

other commodities; and an article would be estimated at so much of such standard commodity, though it had been exchanged for something else, or not exchanged at all; and men would be said to be worth so much of the same commodity, though they might be in actual possession of no portion of it, but only of its equivalents in other things.

The commodity which has thus, by the uniform but silent unconcerted operation of human motives and actions, become the common medium of exchange, and the general measure of value, constitutes the *money of the community;* and in this character it requires an additional value.

Various articles, in different countries, and in different stages of society, have, in this way, acquired the properties of money. In nomadic nations, their flocks and herds become the general medium of commerce, and the measure of value. They can be kept until they are wanted, and though they may be a charge in the mean time, yet their increase and their milk compensate for keeping them; and they are, moreover, transported to distant places at little expense. Before the western states had the benefit of steam navigation, horses, cattle and hogs, there performed the functions of money, and merchants regularly received these species of live stock in payment for their goods, as they furnished the readiest means of remittance to the Atlantic states, through which they received their foreign merchandize. The expense of transporting a given quantity of barrelled pork

would generally be at least four times the cost of transporting the same quantity in a drove of live hogs. By reason of its superior cheapness, this mode of conveying the animal products of their fertile soil to market still extensively prevails, notwithstanding the present cheap and expeditious modes of transportation afforded by steamboats.

Tobacco was also used as a universal equivalent in Maryland and Virginia, it being always readily purchased or taken in payment by their merchants for export to the mother country, to which the colonists were always indebted. To render the commodity more fit to perform the functions of a currency, it was carried to a public warehouse, where it was subjected to inspection by salaried officers, whose certificates passed every where as money, according to the quantity and market price of tobacco. Rice in South Carolina, and fish in some parts of New England, performed similar functions.

But gold and silver have such peculiar fitness for the functions of money, that they seem to have been sooner and more generally used for this purpose than any other commodity. In the earliest annals of Asia* and Africa, the precious metals are spoken of as money, and where other commodities have been used for this purpose, as cowrie shells, and salt, in different parts of Africa, and their staple products in new colonies, it has proceeded from an extraordinary scarcity of these metals.

* See Genesis, Chap. 23d, &c.

Even in those places, they have had a concurrent circulation with their substitutes.

Gold and silver were no doubt thus generally adopted by mankind as money, by reason of the following properties :—

First. *Their beauty and utility.* Their inherent splendor is particularly grateful to our organs of vision. It is this quality which makes them a means of decoration, both with the savage and the civilized man. The Indian of this continent suspends pieces of silver, (for gold is generally beyond his reach,) from his ears and his nose. Sometimes it hangs round his neck, and sometimes it encircles his wrists or his ancles; and this was done by the Mexicans and Peruvians,* who had not yet learnt to use these metals as money. The London or Paris beau, on the other hand, makes use of gold as a case for his watch, or wears it as a ring on his fingers, or a broach, or a guard-chain, or on the buttons of his coat, the hilt of his sword, or the head of his cane. The civilized man every where fashions both metals, and especially silver, which is most abundant, into countless vessels and utensils, and uses thin sheets of it for the embellishment of his ornaments, his furniture, or his carriage. Without this intrinsic source of value, these metals never could have acquired their secondary, or monetary value.

Secondly. *Their scarcity.* Nature has been comparatively frugal in her supplies of these metals,

* Robertson's America, Book VII.

and very unequal in her supplies of the two. It is owing to their rarity, that they contain great value in small bulk, and to the greater abundance of silver, that its exchangeable value is so much less than that of gold; for the difference between them in intrinsic qualities and beauty seems too small to have had any effect on their market price. Had these metals been as abundant and attainable as iron, they had been of less value, inasmuch as they have not so useful properties as that metal.

In consequence of this difference in the quantities furnished by nature, and of the different amounts of labor spent in searching for them, and extracting them from the mines,—by reason of that difference, a pound of gold may now exchange in the market for 16 pounds of silver, for about 1000 pounds of copper, and 5000 or 6000 pounds of iron. But these proportions vary in different countries, and are liable to perpetual fluctuations.

In the same degree that the metals have value in proportion to their weight, have they the quality of *portability*, or facility of transportation,—this quality being inversely as their several values. Thus, supposing 1 pound gold equal to 16 pounds silver, 1000 pounds copper, and 5000 pounds iron,—then, in transporting any given value in the different metals,

One mile in silver = 16 miles in gold.
" " copper = 1000 miles in gold.
" " iron = 5000 miles in gold.

It is owing to their greater portability that the value of the precious metals, and especially of gold,

approaches so near to uniformity throughout the world.

Thirdly. *Their durability.* It is important that an article which was used as the general medium of exchange, and in which value was to be stored away for future use, should not be liable to waste or deterioration. There are few substances in nature which possess this quality in a higher degree than gold and silver. They are not liable to rust, as are most of the baser metals. They are less apt to wear away than lead or tin. The action of neither water, nor air, nor fire, impairs their value. Precious stones are as unchangeable, but if separated into parts, their value is diminished, and cannot be restored. A pound of gold has the same value, whether it be in a hundred parts, or a single mass.

Fourthly. *Their uniformity of quality.* Most useful commodities are very various in quality. This is the case with all animal and vegetable productions, and most minerals. But all gold and all silver are the same every where. Nor is their value liable to much fluctuation from difference of supply or demand. They have, from the earliest ages, been in universal request, and from the care with which they have been preserved, and their own enduring character, the variations either in their consumption or supply must be comparatively very small. The quantity annually extracted from the mines, or annually consumed by wear and tear, and in manufactures, is estimated not much to exceed one hundredth part of the quantity now in

existence; so that if the supply drawn from the mines, in a single year, could be doubled — a greater increase than has probably ever yet taken place — it would augment the existing quantity only two per cent., and consequently could at most depreciate it only to the extent of the excess above the annual consumption. And, although the American mines have for about twenty-eight years yielded, on an average, little more than half their former product, it is not universally admitted that the deficiency has produced any sensible rise * in the value of gold and silver.

Fifthly. *Their facility of separation into homogeneous parts, and of reunion by melting.* By this quality coin is readily converted into ornaments and utensils, and they, in like manner, are converted into coin, as there happens to be a relative excess or deficiency of either, according to the varying wants of society. Into whatever number of parts a piece of gold or of silver may be divided, each part is, according to its weight, of the same quality and value; and any number of pieces can be converted into one mass by the simple process of melting. There are few substances that could thus be

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* McCulloch, Comm. Dict., Art. *Precious Metals.*

The author does not wish to be understood that he has any doubt of the rise in the value of the precious metals since 1810. Not only was such rise to be inferred from the most satisfactory *à priori* reasoning, but it also appears from changes in the prices of commodities too numerous and general to admit of any other solution. But it is clear that such rise must have been very slow and gradual, when the accumulated effect of twenty-eight years was not clear and palpable to all.

divided and reunited without undergoing some loss in quantity or some change in quality.

Lastly. They are capable of receiving a plain and durable impression, by which their weight, value, and origin, are indicated by inspection.

With these recommendations are mingled some inconveniences, to which gold and silver are exposed, as coin. They may be counterfeited or alloyed by base metals; and they may be reduced in weight, without detection by the unassisted senses. These incidents, however, bear but a small proportion to their utility, and are little regarded, except in very wealthy communities.

CHAPTER II.

THE UTILITY OF MONEY IN SAVING LABOR.

A MONEY or medium of exchange, which unites so many advantages as are furnished by gold and silver, is of immense benefit in every civilized community; and the benefit increases with the increasing wealth and commerce of civilization. Every individual is thereby able to buy the precise article he wants, and nothing else,—and just as much as he wants, and no more. He thus obtains a greater value for the products of his own industry, and imparts a greater value to that of others.

Before the introduction of such a general medium of exchange, when men could obtain the products of others only by barter, it would rarely happen that of two persons who casually met, each one wanted what the other wished to part with, and when each was prepared to give the precise equivalent and nothing beyond it. If a shoemaker, for instance, wished to turn his shoes into bread, the baker might not want shoes, or he might not want as many as the shoemaker had to sell. In this case, either the shoemaker would be compelled to exchange his shoes for something that the baker wanted, and would be willing to take in exchange for bread; or the baker might

agree to take the shoes, which he did not want, in the expectation of exchanging them for something that he did. The difficulty would be yet greater, if the article which one wished to barter for several other commodities, would not admit of division,—as a horse, a wagon, a boat, or a house. To convert its value into bread, meat, and clothing, to suit the necessities of his family, might require a dozen subsequent exchanges, even should he be so fortunate as to meet with an individual who wanted his property, had commodities sufficient to purchase it, and was willing to give the value of it.

Where, indeed, two persons chanced to meet, whose several commodities were exactly suited, both in kind, quality, and price, to each other's tastes, they might, by barter, effect, at a single operation, what, by money, would require two. But such cases would be extremely rare, as may be seen by comparing the cases of barter with those of sale, since the introduction of money does not prevent barter wherever that is found more convenient. We may, therefore, safely say, that the use of money, as the instrument of exchange, in ninety-nine cases out of a hundred, saves time and trouble, and, in very many of them, effects the purposes of the parties, that would be unattainable by barter.

The article thus readily convertible into every species of product, and which thus commands the industry, skill, and talents of the great mass of the community, is, on these accounts, an object of universal desire, and has a very important agency *in the* distribution of national wealth.

CHAPTER III.

THE INFLUENCE OF MONEY ON THE PROSPERITY OF THE COMMUNITY.

By reason of the readiness with which money enables every producer to dispose of his redundant products,—that is, to convert them into what has a more unvarying and universal value,—it is a great incentive to industry. Were the practice of barter to prevail, the fear felt by a tradesman, that he might not find persons who would both want his commodities, and have such as he himself would take in return, would check his industry, and he would generally wait, as is often the case with country workmen, for articles to be ordered before they were made.

There is also, from the use of money, a great saving of time, as we have seen, which the industrious class can appropriate to the business of production.

Money is, moreover, favorable to that separation of trades which is, of itself, so propitious to increased production, and to an improvement in the quality of the articles produced. If there was no general medium of exchange, men would often fabricate articles for themselves, from the trouble and delay of obtaining them by barter; and great

excellence in any species of handicraft or manufacture is attained only by continued and undivided practice.

There is yet another advantage that is somewhat less obvious. As every article has its known market price in the general measure of value, where there is one, every producer can thereby better adapt his supply to the varying demands and diversified tastes of the community. Money furnishes a very sensitive barometer of these variations, by consulting which the industrious classes will be less likely to misdirect their labor, and create redundancy on the one hand, or subject the community to scarcity on the other. Where the value of the articles produced had to be exchanged some three or four times before the producer obtained what he wanted, it would not be easy to say what was the market value of his commodity. The knowledge, at least, would be far less prompt, easy, and precise, than it is where there is a general measure of value.

The introduction of money has also a manifest tendency to beget frugality, and encourage accumulation. Without such a convenient and unchanging representative of value, or mode of investment, many things would be wastefully consumed, supposing them to be produced, which would be saved, if convertible into money, instead of being exchangeable merely for other merchandise. Most animal and vegetable products are liable to decay or injury from keeping; and of such commodities as may be exempt from this inconvenience, many are bulky, neither easily

removed from place to place, nor kept with entire safety. But gold and silver, by their great value, in proportion to their bulk, are easily removed from places of danger, and easily secreted from violence or theft. The practice of saving is so much encouraged by the facilities which the precious metals afford, that it occasionally grows to be one of the strongest human passions; and misers, who are instances of the abuse of frugality, and who are, in part, the creatures of a metallic currency, furnish striking proofs of its power over human action; a power which, excessive in their case, exerts a healthy influence on the rest of the community.

It is a further incentive to accumulation, that loans of capital on interest are greatly facilitated by the use of money. The same difficulties which the practice of barter presents to exchanges, it presents also to loans. The commodities which one individual has to spare, he may not find another willing to borrow; and though he should, they vary so much in quality, there would commonly be ground for dispute in the repayment of the loan. The expense of transporting the articles, first from the lender to the borrower, and then to those with whom he would find it necessary to exchange them, would prove an additional obstacle to the loan. But, where a certain value or amount of materials and labor are embodied in the compact and portable form of gold and silver, which are readily exchangeable for every thing, the possessor can easily find borrowers who will be willing to compensate him for what may be so useful and

even necessary to them. If the capital thus lent should be used by the borrower productively, as it often is, such production is a gain to the community that is fairly ascribable to the introduction of money. The advantages of money over barter are very clearly manifested in the difference which is commonly made between the terms of a contract in which payment is to be made in cash, and of that in which it is to be made in goods at the ordinary price; which difference is so great, that most men prefer giving credit, inconvenient and pregnant with loss as that is, to barter. When money is found to be thus favorable to industry, economy, and the greater productiveness of capital, it must be regarded as one of the most useful of human inventions, and as most conducive to the welfare of states. Therefore it was, that, when politicians first began to speculate on the sources of national wealth, and on the best means of promoting it, perceiving that the prosperity of states was in proportion to their respective quantities of gold and silver, (as will be the case, when they constitute the money of a country,) they regarded those metals as wealth itself, instead of being merely among the signs of wealth. Looking at them, then, as an end, instead of means, and in directing their efforts to the exclusive purpose of increasing their quantity, they unconsciously counteracted their useful tendency to encourage industry and economy; and they thus not only impaired the sum of national wealth, but eventually lessened the amount of the precious metals themselves. *It can* scarcely be doubted, that the quantity of

gold and silver has, for more than a century, been greater in England than in Spain and Portugal, which received the whole product of the American mines, and through which England, in commerce with the rest of Europe, received nine tenths of her supplies of those metals. Those nations had not learned that it is industry, skill, and economy, which create national wealth, and that gold and silver, no more than any other commodity, and no more in the form of money than of ornaments and utensils, add to the wealth of a country, except so far as they cherish and promote those virtues.

By way of illustrating the useful functions of money, writers have assimilated it to different physical objects. Thus, it has been called the wheels of commerce, and the grease which facilitates the motion of those wheels. But its useful functions can be compared to nothing more aptly than to those of a canal or artificial road, by which the conveyance of articles from hand to hand is performed with greater ease, despatch, and safety, and which have always been found to give a great spring to useful industry and commercial enterprise, not only by improving existing markets, but also by creating new ones.

Like such facilities of communication, too, a certain number may be required by the amount of commodities to be exchanged, and an increase beyond that number may be a waste of the national capital, by lessening the utility of those previously existing, without obtaining adequate remuneration for themselves.

CHAPTER IV.

THE COST OF A METALLIC CURRENCY.

THE advantages afforded to a community by a currency of the precious metals, are not obtained but at a considerable expense, though that expense may bear a small proportion to its benefits; but to acquire the amount of gold and silver requisite for performing the offices of money, a nation must part with no insignificant portion of its previous earnings; and this, whether it have mines of itself, or procure the metals from abroad. Indeed, from the facility with which gold and silver are transmitted from place to place, and the consequent small difference of their value in different countries, very little is saved to a country by its furnishing its own gold and silver; and, for reasons to be hereafter mentioned, this benefit is commonly outweighed by some disadvantages, so as to make it, generally, better that a nation should derive its supplies of the precious metals from other mines than its own.

What, then, is the cost at which a nation purchases its gold and silver circulation? The question admits of no very precise answer, as the amount is very different in rich and in poor countries; in countries having a dense or a thin popu-

lation; and as they are more or less commercial.* The amount of money required being manifestly proportionate to the number and value of the exchanges made in each country, it will, therefore, generally be great according to the opulence, the density of population, the distribution of employments, and the activity of its commerce, foreign and domestic. But the amount actually current is not always in the precise ratio to these circumstances, since the money of one country may have a more rapid circulation, and be the instrument of more exchanges, than the money of another, just as one road or one wagon may transport more merchandise at one time, or in one place, than another. Thus, although money may be as abundant in France as in England, yet this fact would not indicate the relative wealth and commerce of the two countries, as money has a much brisker circulation in England, and more and better devices prevail there for dispensing not only with coin, but even with its proper substitutes. Other circumstances, making a difference in the practices of barter and of giving credit in the commercial dealings of a country, make a correspondent difference in the amount of currency they severally require.

Some writers have affected to state the proportion between the circulation of a country and the value of its whole annual produce; but, as Adam Smith properly remarks, it is, perhaps, impossible to determine the proportion. It is not easy to

* See next chapter.

ascertain the amount of money circulating in a country, and still less the value of its annual income. The proportion, too, between them probably varies greatly in different countries. It is, therefore, not wonderful, that this proportion has been variously estimated from a fifth to a thirteenth part of the yearly produce. The largest amount seems to be not far from the truth, in the only nation which affords us statistical materials for making any approximation to the truth. The annual income of Great Britain has been recently estimated, upon the imperfect data possessed, at about £300,000,000 sterling.* Supposing its circulation to be £60,000,000, according to the last estimate, it is precisely one fifth of the annual income. Mr. Webster, in his second speech on the sub-treasury bill, (March 12, 1838,) estimated the circulation of the United States, paper and metallic, at $130,000,000; and although the proportion of currency to annual income is probably less in this country than in Great Britain, yet we cannot greatly exceed the supposed proportion, without, at the same time, making an inordinate estimate of our national income. Thus, if we reduce the proportion from one fifth to one tenth of the annual income, it will make the latter $1,300,000,000, which far transcends any estimate which has been ever made of that income, and is beyond any supposable rate of profits from our computed national capital. According to the assessed valuations of the real and personal es-

* McCulloch's Statistics, Vol. I., p. 593.

tate in the State of New York in the year 1834, the whole property of the State amounted to $459,672,135; and supposing the other States to have equal wealth in proportion to their numbers, (which, however, they have not,) the whole national capital would amount to $2,803,704,945. Estimating the profit of this capital at 10 per cent., and the wages of labor to yield as much, the whole annual income would be $560,740,989, which is less than five times the amount of the supposed circulation.

Though these estimates rest upon data that are not sufficiently authentic to conduct us to any accurate result, they afford persuasive evidence that the proportion, which the currency of a country ordinarily bears to the annual produce of its land and labor, has been oftener rated too low than too high by those who have speculated on the subject.

One of the best modes of comparing the circulation of different countries is, to make the comparison in reference to their population; that is, how much money each country has for every individual of its population; as is exhibited in the following table:

Countries.	*Population.*	*Currency.*	*Proportion to each individual.*
Great Britain,	18,000,000*	£60,000,000	£3.6.8=$16.
France,†	30,000,000	2400,000,000 *livres*	80 *liv.*=$15.
Russia,‡	35,000,000	175,000,000 *rubles*	5 *rub.*=$3.75.
United States,	16,000,000	$130,000,000	—— $8.12½

* McCulloch's last estimate.

† Gallatin's Essay on Banks, p. 16.

‡ Storch, Vol. IV, note xii.

According to this comparison, money is more than twice as abundant in the United States as in Russia, and nearly twice as much so in Great Britain as in the United States.

Although, in all these countries, a part of their circulating money is paper, yet, so long as its paper currency is redeemable in specie, it may be fairly presumed that gold and silver to nearly the same amount would have circulated there, if the paper had not been substituted for them. The value of that much gold and silver is a just item of the cost which a nation pays for the benefits and facilities afforded by money.

To this cost must be added the expense of coinage, and the loss which the coin undergoes from wear and friction. This is different on the two metals, (as we shall see,) and on coins of different value. Something may be added, too, for losses at sea, and by being buried in the earth. The whole of these losses together have been estimated at 1 per cent.* But this seems to allow far too much for casualties, as the loss by abrasion is ascertained not, on an average, of gold and silver in Europe and America, to exceed $\frac{1}{400}$, or a quarter of one per cent., in a year.

This loss, whatever it may be, the cost of coinage, and the ordinary profits of the capital expended in the purchase of the precious metals, constitute the price which a nation annually pays for the benefits of a money circulation.

If we take the state of New York as affording

* McCulloch's Comm. Dict., Art. *Precious Metals.*

a fair standard of this cost in the United States, then, as the whole capital of the state in 1834 was about 460,000,000,* and its circulation at the same time was about 22,000,000, the consideration which a state pays for this useful instrument of commercial intercourse is nearly 5 per cent., or one twentieth of its whole capital.

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* The circulation of the state of New York, in the year 1834, was as follows:

Notes of the state banks, according to official returns,	$16,732,014
Notes of the bank of the United States, one sixth of the amount then in circulation, - - -	1,716,429
Specie, one sixth of the amount supposed to be in circulation, - - - - - -	3,500,000
	$21,948,443

CHAPTER V.

THE CIRCUMSTANCES WHICH DETERMINE THE AMOUNT OF CIRCULATION IN DIFFERENT COUNTRIES.

We have seen that the amount of circulating money greatly varies in different countries. The causes of the diversity, to which we have already briefly adverted, may deserve a more particular notice.

1. As the use of money is to facilitate the exchange of valuable commodities for their equivalents, the most efficient cause of the different amounts of circulation required by different countries is the *difference of wealth.* The more a country abounds in the conveniences and elegances of life,—that is, the greater its opulence,—the greater will probably be the number and value of its exchanges.

2. The quantity of money which circulates in a country is materially affected by *the distribution of employments.* If an individual could furnish himself with every article he requires, he would manifestly have no occasion for money, unless he wished to hoard it; and the more articles he fabricates for himself, the less money he needs. But, where the different branches of industry are so distributed that every one is employed in his par-

ticular trade, he can furnish himself only with the single article he has fabricated, and must purchase every other. To make these purchases, his occasions for money are proportionally multiplied; and where, by an extreme subdivision of labor, many concur in producing the same fabric, — a piece of cloth, for example, — then each workman requires money to purchase even the article he had contributed to make.

The distribution of employments gives a further demand for money, by multiplying the sales of the same article, as it passes from hand to hand, on its way to the consumer. Thus, the farmer sells his wheat to the miller, who sells the same wheat, in the form of flour, to the baker, who again sells it, in the form of bread, to his customers. So, when a man buys a pair of boots, he pays for the leather as well as the work to the maker, who had paid for it to the tanner, who had previously paid for the hide to the butcher, which hide the butcher had purchased with the live cattle of the drover, who had, in turn, bought the same cattle of the farmer. The southern planter, in like manner, buys his goods of the shopkeeper, who has probably bought them of a jobber in New York, who has purchased them by wholesale of an importing merchant, who has bought them, perhaps, of the English manufacturer; and each successive sale requires the original value of the goods to be represented by its equivalent in money or credit. And, although the amount of capital required is thus multiplied, and every portion employed must

have its separate profit, yet the consumer is benefited, rather than injured, by these intermediate agencies, as they never exist except where they are recommended by convenience and economy. It may be presumed that the southern consumer can now purchase any species of foreign merchandise that reaches him, by the same circuitous process, on better terms than when it was imported into his state directly from the country that produced it.

In both the circumstances mentioned, we see a reason why there should be less money in the United States than in England or France. The comparatively brief existence of the former has not yet permitted the same accumulation of wealth, and their thinner population does not admit of the same thorough distribution of employments. The great bulk of the rural population in the southern states, comprehending nineteen twentieths of their whole population, provide themselves at home with all their meat and bread, most of what they drink, and nine tenths of what they wear. They deal with the merchant for salt, iron, sugar, coffee, tea, spices, a little imported finery for the females of their family, with now and then a suit for themselves; which articles, being mostly paid for once a year by the proceeds of their crop, are purchased rather by a sort of barter than by money. A large proportion of all the articles consumed by the slaves — linen, cloth, and shoes — are made on the estates.

Another circumstance which makes less money

necessary in the United States is, that most of their lands are cultivated by the proprietors; and of the small proportion that is let to tenants, most pay a proportional share of the crop, and not a money rent. Where land is farmed out for a money rent, as it is throughout England, and in the north of France, a much larger amount of currency will be required, both by the class of tenants and of landlords.

The heavier taxation of Great Britain and France, is another reason why they should have more money in circulation than in the United States. The annual taxes of England amount to £50,000,000, to which, if we add £8,000,000 for the poor rates, the whole is equal to £3. 4s. 5d. to each individual, or about $15½; whereas, in this country, the taxes, both to the general and the state government, do nowhere exceed from $3 to $5 per head.

Some of the causes which operate to reduce the amount of money required in this country, operate to a yet greater extent in Russia, and Storch* remarks that there are many villages in the interior of that empire in which the inhabitants might do without money altogether, if they had no rents and taxes (*des redevances*† *et des impôts*) to pay. While, in the preceding particulars,

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*Econ. Pol., Vol. II., Chap. 11.

† This term, which I have translated *rents*, seems here to mean the *obroe*, or the annual sum which the Russian serf, who is allowed to dispose of his own time, pays his master.

the United States have less occasion for money than France and Great Britain, there are some which have a contrary effect. One of these is the greater facility with which land here passes from hand to hand, and the consequent greater frequency of sales. The equal division which both law and usage make of a landed estate among all the children of a deceased proprietor, as well as the roving disposition of the people, the great abundance of land, and, lastly, the facility with which it can be subjected to the payment of debts, all concur to make this considerable portion of the national capital require and circulate more money here, notwithstanding its cheapness, than perhaps in any other country whatever.

The slaveholding states, too, which on so many accounts require little money in proportion to their capital or their income, have, in the institution of slavery, an occasion for money, which makes a large addition to their circulation. The slaves in the United States, according to the last census, at the average price of $300, would amount to more than 600 millions.

Although rich countries require a greater amount of circulating money than poor ones, it must not be inferred that the excess of money is in proportion to the excess of wealth. On the contrary, the amount of currency may, and commonly does, bear a less ratio to its wealth in a rich, than in a poor country.

It owes this advantage to two circumstances. One is the greater rapidity with which money and

every species of merchandise is transmitted from place to place, by means of good roads and canals; the security of property, and the industry, punctuality, and business habits of the people. If the rapidity with which capital can be transferred from place to place be doubled, then half the amount will perform the same offices in a given time, that the whole performed before. Thus, the same amount of capital employed between New York and Philadelphia may have twice or thrice the efficiency it had thirty years ago, because it can be turned over in a half or a third of the time. So, if steam ships could cross the Atlantic in half the time required by sail vessels, and make twice the number of voyages in a year, this advantage of the former would compensate for double the cost in the first instance, and double the daily expense of navigating them. But, even with this equality in the two species of navigation to the proprietors, the merchant might make ten thousand dollars as efficient in the steam ship as he could make twenty thousand in the sail vessel, since he could turn over his capital twice as fast.

Another mode in which the quantity of money is lessened in wealthy and commercial countries is by financial expedients, and by a more perfect system of mercantile credit. Bills of exchange, promissory notes, whether of banks or individuals, and bank checks, are there made, by reason of the public confidence in the ability and punctuality of those who issued them, to perform the functions of money yet better than the precious metals, where-

by the use of these is proportionally diminished. In the progress of society, as barter is superseded by money, so, in its further progress, money is partially substituted by paper; and, finally, the use of these substitutes themselves is abridged by checks, and by the mere entries of debt or credit in an account, all of which expedients, adapted to different stages of commercial wealth, have been devised and adopted solely because they saved time, trouble, and expense.

We may form some idea of the saving that is thus effected, by a single example of what takes place in London at the *Clearing House.* To this house the principal bankers of that vast metropolis are in the habit of sending a clerk, at half past three o'clock every day, with the various bills drawn upon other bankers which his house has received. These he deposits in their appropriate drawers, (each banker having one,) and then credits each one for their respective claims against his house, as found in its drawer. "Balances," says Mr. McCulloch, "are then struck from all the accounts, and the claims transferred from one to another, until they are so wound up and cancelled, that each clerk has only to settle with two or three others, and their balances are immediately paid."* In this way, Thornton, himself a London banker, states that by this contrivance, payments to the amount of four or five millions a day are made by the actual employment of from £200,000 to £300,000, in coin or bank notes.

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* Com. Dict., Art. *Clearing.*

On the whole, then, we may say that the more perfect the system of commercial credit, whether it arise from the influence of moral habits and public opinion, or the rigid enforcement of contracts by law, or, as is commonly the case, from the two united, the greater is the amount of money that can be dispensed with. But the credit here spoken of, which is adopted for its superior convenience, must not be confounded with that which arises from the scarcity of cash, of which it is the forced substitute. In the one case it is, as we have seen, a labor-saving expedient; in the other, it greatly increases the consumption of time and labor. Credit of this kind is far less convenient than money; it is only more convenient than barter.

It is the latter species of credit which is found extensively to prevail in all new colonies, in early settlements, and, indeed, in all countries that are rapidly advancing in population and wealth. Such countries always have less money than they could advantageously use, not only because they have less of every species of capital, but also because that portion which exists more readily admits of substitutes, and can therefore be more easily dispensed with than other forms of capital, especially those which are essential to the employment of productive industry, food, clothing, tools, and machinery. We accordingly find that all the European settlements in America, not possessing mines, have always experienced an inconvenient scarcity of money, which they have endeavored to remedy,

partly by making some staple product an universal equivalent, or a sort of currency; and partly by the issue of paper money, on the credit of the colonial governments; or by the familiar use of bonds, promissory notes, and sales on credit in private dealings. The same scarcity of money has prevailed in the French as in the English colonies, and is still found to exist in the more recent settlements in New Holland, though the latter, yet more than were the former in their infancy, are remarkably thrifty and prosperous communities. Their imports (always nominally greatly exceeding their exports in amount)* are as yet too exclusively appropriated to their more pressing wants, to admit of their obtaining adequate supplies of the precious metals.

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*In 1833, the imports of New South Wales amounted to £713,972; the exports to £394,801. In 1834, the imports into Van Diemen's Land were £471,233, and the exports £203,233. Murray's Encycl., Book IV.

CHAPTER VI.

HOW FAR PRICES ARE AFFECTED BY AN INCREASED OR DIMINISHED CIRCULATION.

The amount of money which is wanted in a country to make purchases, whether for consumption or traffic, and to fulfil contracts, being dependent on the extent of such purchases and contracts, every country tends to attract to itself its proportion of the money of the world, according to the modifying circumstances that have been mentioned. For, if it has a less portion, the value of the metals there rises, and that of other commodities falls; in consequence of which, there is a further exportation of merchandise and an importation of gold and silver, until the equilibrium is restored. If, on the other hand, the quantity of money should be greater than the circumstances of the country require, its value would fall, which would occasion its export. Such are the general tendencies of the precious metals to adapt themselves to the wants and means of a country.

But it is not necessary that the supply should be accurately adjusted to the quantity required, as has been commonly assumed by writers on the theory of money, and that with every excess or deficiency

in the quantity, there is a correspondent decrease or augmentation of the price. The quantity seems to admit of a considerable expansion or contraction, before its value is greatly affected, though it may experience sufficient change to cause its export or import.

It is not with money as with perishable articles, which must find a market in a short time, or become valueless in the owner's hands; but the value of the precious metals being permanent and universal, when they are less in demand, the holder can either send them abroad, at a small expense, or he can keep them by him, in the well-founded confidence that their value will soon regain its natural level. Besides, there are, as we have seen, in every community, many purchases made by means of credit; and a part of the occasional excess of money is absorbed by increasing the proportion of cash payments. As in this way the abundance of money does not affect the relation between the supply and demand of commodities, it does not lower prices; it merely lessens the number of credit sales, by substituting those for cash, either by the money-holders themselves, or those to whom they lend the money. Of that portion of money which does not merely take the place of credit, a part may remain idle, either in the hands of the owner, or on deposit in bank. This portion, we know, is liable to great fluctuation; and it can have little or no effect on the market value of money, except by its small influence on bank discounts. The same proposition is thus main-

tained by a sensible correspondent of Mr. Tooke's,* in the recent edition of his elaborate work on prices, (Vol. II., p. 371:) — "But an unusual abundance of money does not always produce a general rise of prices. It is quite possible, indeed, that, contemporaneously with that abundance, the prices of commodities may be generally low. The increased issue of paper may fall into the hands of those, who, from habit and inclination, are averse from investing their money savings in commodities or services, with a view to reproduction and to profit, but whose desire it is to employ the money which comes into their hands, over and above their own personal and unproductive expenditure, in such a way as will bring to them an increased income, with as little risk and trouble as possible. But the opportunity of so employing this surplus money may not immediately occur."

When, on the other hand, there is a deficiency of money, either from a diminished supply, as where the balance of trade has occasioned a great exportation of specie, or from an increased demand, as where there has been a sudden advance in the chief staple products of the country, — money, in these cases, does not proportionally rise in value; but the commerce of the country is carried on to a greater extent by means of credit. A brisker circulation, too, has the same compensating effect, when money is deficient, as a languid circulation has, when money is redundant.

But when the excess or deficiency of circulation

* Mr. Pennington.

has passed beyond the influence of these correctives, as in case of the great and sudden enlargement or contraction of bank issues, then money experiences a correspondent rise in one case, or depreciation in the other, its value varying inversely as its quantity. Nor can it regain its proper level, until some alteration, either in the demand or supply, has restored the former proportion between them.

Here, however, we must bear in mind, that this change in the value of money affects the prices of different commodities very unequally. Of the very large class of articles which enter into foreign commerce, whether of export or import, the price is but slightly affected. The price of cotton here, for instance, depends mainly on the price in Liverpool and Havre; which, again, depend upon the proportion between the general demand and supply of the world. It is no otherwise affected by the plenty or scarcity of money here, than as the market rate of interest and of commercial profits fluctuates, which fluctuations can seldom have much proportionate influence on price. The same remark applies to our tobacco, flour, and other articles of export, and to every species of imported merchandise. If the quantity of our money were suddenly doubled, it would not raise these articles, with a few special and temporary exceptions, ten per cent., and very many articles not five. But as to that description of property, for the value of which there is no such standard of comparison, the case is very different; such as lands, town lots, the

wages of labor, and every article, in short, whether of luxury or necessity, that is of domestic origin, and relies exclusively on the domestic market. These will feel the full effect of the depreciation of money, or its increased value, as the case may be; and the change of price will be the greater in this class, because it has been less in the other. The excess or deficiency of money operating upon but a part of the marketable articles in the community, the elevation or depression of price on these articles must be the greater, to countervail the whole excess or deficiency. Accordingly, we find, that, when the circulation had, between the years 1813 and 1815, increased from $70,000,000 to $110,000,000, according to Mr. Crawford's bank report,* and yet more in 1816, while our articles of export rose, and those of import fell, in consequence of the change from war to peace, real estate of every kind, both in country and town, experienced a great rise, — often as much as 200 or 300 per cent. When, a few years afterwards, the circulation was reduced, according to the same report, to $45,000,000, real estate, especially houses and lots in town, fell almost as much as they had previously risen. And, more recently, when our currency had increased from about $63,500,000, as it was estimated by Mr. Gallatin† in 1830, to $140,000,000‡ in 1836, according to

* Report of Feb. 24, 1820, p. 8.

† Essay on Currency, p. 54.

‡ These sums exclude both the notes of other banks on hand, and the deposits.

the computation of Mr. Woodbury, we know that city lots, the wild lands of the west, and all lands in the neighborhood of towns, existing or projected, experienced an exorbitant rise,—sometimes several hundred per cent.; while every species of imported merchandise continued nearly at former prices, and the prices of our articles of export bore their wonted proportion to their prices abroad.

It is owing to this inequality of depreciation, that the fact itself may exist long before it is generally perceived, and that its existence even is sometimes disputed. In England, it furnished arguments of some plausibility to those who maintained that their bank paper had not depreciated during the suspension of specie payments.

CHAPTER VII.

THE EFFECTS OF A REDUNDANT AND OF A DEFICIENT CIRCULATION.

WHENEVER there is either a great redundancy or deficiency of currency, the mischief is very great in a commercial community, and strikingly shows the important agency of money, as an instrument of exchange. In the case of excess, it is almost sure to engender a wild spirit of speculation, both by affording the means and by stimulating the inclination, by reason of the increasing fictitious value which it imparts to some species of property. This spirit, once excited, draws men off from their regular pursuits, makes them look with disdain on the slow but sure gains of ordinary business, and hazard their capital and credit on rash schemes of profit, which, in much the greatest number of instances, are followed by disappointment, and not seldom by bankruptcy. In the eagerness for gain, it often gives rise to deception and fraud, and it always more or less strengthens the selfish, and weakens the better principles of our moral nature. While the fancy is thus deluded with visions of future wealth, men are led to increase their expenses, not distinguishing between the money they expect to make, and that they already possess.

During the wild speculations of 1836, many, who thought they had made hundreds of thousands of dollars, and who had indulged in a course of expense suited to their ideal wealth, in the course of a single year found themselves scarcely possessed of a competency. In short, by the suspension or diversion of industry from its usual employments, production is diminished; and, by creating notions of wealth which are fleeting and fallacious, consumption is increased.

The evils of a deficiency of money, though widely different, are scarcely inferior. A very large proportion of every commercial community find it necessary, or, at least, highly advantageous, to receive as well as to give credit; and thus the faithful performance of their own engagements depends upon the punctuality of those to whom they have given credit. When the supply of currency is inadequate, some must fail to fulfil their pecuniary contracts; and their failure may affect the punctuality of many others. This not only produces a series of disappointments, but often arrests the course of industry and trade. The manufacturer, for instance, not receiving the payments on which he counted, must discharge a part of his workmen, or is unable, from the injury his credit has sustained, to keep up his supply of raw materials. In this state of things, men become distrustful, and sometimes refuse credit where it might be given without risk. All the wheels of industry thus become clogged and sluggish; enterprise is suspended; and as excess of money had

given preternatural activity, so the deficiency gives too little for the healthy condition of the community, which seems to suffer as much from the torpor of one state, as from the fever of the other.

The United States have sometimes experienced this inconvenience, when, either from a sudden check in their ordinary exports, or a great decline in their value, there has been a large foreign balance due, which has either driven specie out of the country, or, from the fear of such export, has withdrawn bank paper from circulation. This was the cause of the pecuniary embarrassments and distress in 1819. They, for a time, were scarcely inferior to any experienced during the preceding war. Creditors could not collect their debts. Debtors could not comply with their most solemn engagements. Those who had traded profitably on credit, had to limit their operations to cash, scarce as it was; and many, therefore, had to suspend them altogether. Ships lay idle at the wharves, because those who would have employed them had not the usual means of freighting them. The farmer, in disposing of his crop, was reduced to the alternative of selling at an undervalue, or of giving a credit when it was particularly hazardous. The manufacturer had the same difficulty in making sale of his fabrics, in addition to that of procuring his materials and paying his workmen. The merchant, who, as buyer or seller, always shares in the ill fortune of the other classes, had the further embarrassment of paying his note at the bank, when there was

neither notes nor coin in circulation. The same distress would have occurred last year, (1837,) if the banks had not stopped specie payments. Finding they must stop, either with money or without it, they decided on the former; and the public, objecting less to a vicious than a deficient circulation, sanctioned their decision. The evils which preceded and followed the suspension have been, certainly, very great; but they were far less than they would have been, if that suspension had not taken place.

While the effects of an excess of money, no less than of a deficiency, prove, eventually, so injurious, the period of transition from a less to a greater circulation has been thought very propitious to every branch of productive industry. "We find," says Hume, "that, in every kingdom into which money begins to flow in greater abundance than formerly, every thing takes a new face; labor and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plough with greater alacrity and attention."

These good effects are more likely to occur, if the transition is gentle and gradual. The prices of most things then moderately rise; and the producer, being better rewarded than he expected, is stimulated to further production. He also finds it easier to sell for cash, or quick payments; and he thus has the ability, as well as the inclination, to extend his business. Nor does the effect seem

likely to cease, as Hume* supposes, after there has been a general rise of prices; but most men, believing according to their wishes, will expect that their products, which have been recently

* The mode in which this author supposes that an increase of money operates on industry is thus minutely detailed by him:— "To account, then, for this phenomenon, we must consider, that though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase, but some time is required before the money circulates through the whole state, and makes its effect felt on all ranks of people. At first, no alteration is perceived; by degrees, the price rises, first of one commodity, then of another, till the whole, at last, reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval, or intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favorable to industry. When any quantity of money is imported into a nation, it is not, at first, dispersed into many hands, but is confined to the coffers of a few persons, who immediately seek to employ it to advantage. Here are a set of manufacturers, or merchants, we shall suppose, who have received returns of gold and silver for goods which they sent to Cadiz. They are thereby enabled to employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but, at first, requires an increase of labor; and this is willingly submitted to by the artisan, who can now eat and drink better, to compensate his additional toil and fatigue. He carries his money to market, where he finds every thing at the same price as formerly, but returns with greater quantity, and of better kinds, for the use of his family. The farmer and gardener, finding that all their commodities are taken off, apply themselves with alacrity to the raising more, and, at the same time, can afford to take better and more clothes from their tradesmen, whose price is the same as formerly, and their industry only whetted by so much new gain. It is easy to trace the money in its progress through the whole commonwealth, where we shall find, that it must first quicken the diligence of every individual, before it increases the price of labor." — *Hume's Essays, III. of Money.*

rising, will continue to rise; and thus enterprise, skill, and labor will be stimulated to activity by the hope of increased remuneration.

But, on the other hand, when the circulation is decreasing, all the stagnating effects that have been already noticed begin to be felt. Every one obtains a smaller remuneration for his industry or skill than he expected; and of those who do not curtail their business from necessity, many do so from choice. No new enterprises are then ventured on; and those already begun, which, in the ordinary state of things, would have been successful, are abandoned. Every sort of business is engaged in hesitatingly, is prosecuted without vigor or confidence, and often, therefore, without success.

It would, on these accounts, be desirable that a nation should always experience the salutary influence of an increase of money; but, as this is practicable only in those countries that are steadily advancing in wealth and population, and not even in them but to a moderate extent, it would seem better for a country to dispense with the extraordinary stimulus than to take it, attended, as it too often is, by the mischiefs of overtrading, extravagance in expense, wild and ruinous enterprises, bankruptcy, and a general prostration of mercantile credit. This is the stimulus of the opium-eater, which always leaves the patient weaker, brings on pains for which his delirious dreams are no compensation, and, in time, ceases to give even the temporary relief it at first afforded.

CHAPTER VIII.

THE COMPARATIVE VALUE OF THE PRECIOUS METALS IN DIFFERENT COUNTRIES.

How far does the value of gold and silver in one country differ from its value in another, independent of the temporary fluctuations from excess or deficiency that have been mentioned?

The exchangeable value of these metals, like that of all other commodities, must be determined by comparing them with other articles; and they are more or less valuable as they will exchange for more or less of such articles. But with what shall we compare them? They will exchange for more of one article in one country, and of another, in another. They seem to have most value in England, if we compare them with cotton goods, or hardware; in France, if compared with wine or silks; in Russia, if with tallow or hemp; and in the United States, if with raw cotton or tobacco.

Nor is this all the difficulty. In making the double comparison between the precious metals and other commodities, in different countries, as the difference in their relative value may be owing to a difference either in the value of the metals, or in that of the commodities, we must ascertain

which of these causes have operated, or how far the one, and how far the other may have prevailed.

The inquiry then is a very complicated one, and it must be greatly qualified to admit of an answer either precise or satisfactory. Still there are general diversities, which it is proper to notice in a theory of money.

1. As the chief part of the gold and silver of the world has been derived from the mines of America, it is clear that the value of these metals in different countries will be influenced by their distance from these mines. But this difference is not regulated solely by the portability of the metals, or their great value in proportion to their volume and weight. This might have been the case, if other countries had received their supplies of gold and silver by emigrants from the mining districts, carrying their property in the form of these metals with them. But such was not the fact. The rest of the world obtained their supplies of gold and silver, by exchanging for them their more bulky commodities; and the value of the metals in each country has been enhanced by the expense of transporting their equivalents. It has not, however, been enhanced to the amount of the whole expense, since the merchandise received by Spain and Portugal, or their American settlements, has been increased in value by the exchange, as well as the gold and silver they have paid. The joint expense, then, of transporting both metals and merchandise is divided between the two, and each has

an accession of value to the amount of one half. This was the only condition upon which they could be supplied. Hence gold and silver are worth more in England and France, than in Mexico or Peru; more in Poland and Russia, than in France or England; and yet more in India or China, than in any part of Europe. They were, on this account, of much greater value in the Western, than the Atlantic states, until steam navigation lent its immense facilities to the interior commerce of the country.

2. The market value of all commodities, apart from the fluctuations in the demand or supply, depends on the value of the raw materials and labor which produced them. Now these two elements change their relative value with the progress of population. As this increases, the value of labor has a tendency to fall, and that of raw produce to rise. The same soil being called upon in each successive generation to support a greater number, its products rise and command a greater amount of labor, for the same reason that they command more during a scanty season.

Of two countries, then, equidistant from the mines, in the one more densely peopled, gold and silver, if compared with raw produce, will have the greater value, and if compared with labor or manufactured products, will be the least valuable. An ounce of gold will thus generally buy more wheat and other raw produce, in the United States, than it will in England, and more cloth or hardware in England than it will in the United States.

3. Let us, however, suppose two countries equidistant from the mines, and having the same density of population; but one rich, that is, abounding in the necessaries and conveniences of life; the other but scantily supplied with them. In which of these will gold and silver have the greatest value? Adam Smith * thinks in the rich country, and Ricardo † maintains the contrary. It hardly seems to be a question for such discrepancy.

If one country be richer than the other, by the greater fertility of its soil, then gold and silver will exchange there for more corn, and other products of agriculture, they being there produced at less expense of labor and capital; and, consequently, as to this class of commodities, those metals will be most valuable in the rich country. In the same way, we see grain bought for consumption, every year selling at a somewhat lower price on the fertile river bottoms, than on the poor lands in their vicinity.

If a country be richer, by reason of a greater amount of capital, or accumulated wealth, then those operations of industry that can be facilitated and cheapened by capital will there be cheaper, and as to these, gold and silver will have a greater value.

Lastly, — if a country be the richest by reason of its greater science and practical skill, — its superior industry, economy, and business habits, manufac-

* Wealth of Nations, Chap. XI.
† Ricardo's Pol. Econ. Chap. XXVI.

tured products will, as in the preceding case, be there cheaper, and, consequently, the precious metals have a greater value. They would exchange for more commodities of the same quality, or as many of better quality.

These seem to be the only ways in which one country can be richer than another; and if one of the two countries supposed was the richest in all three, while it would have far more of gold and silver than the poor country, the same quantity of either would purchase more of every species of commodity, and thus have the greatest exchangeable value.

There is one article, and only one, which would exchange for less gold and silver in a rich, than a poor country; and that is human labor, or services. These, by reason of their greater productive powers in a rich country, will there purchase more of all commodities, and, consequently, more of the precious metals. And, though in exchange for a month's, or a year's labor, those metals may be of less value, yet, if we take into account the possible difference of quality, and how much more productive and efficient the labor of one country may be than the labor of another, this scarcely deserves to be considered an exception; and thus, Smith, though his proposition is not expressed with entire precision, and some of his arguments may admit of question, seems to be substantially right in asserting, that, while there is more gold in a rich country than in a poor one, the same portion of it will also there purchase more commodities. And,

it may be added, that it will purchase a greater amount of human skill and talent, though it can purchase the services of but a smaller number of individuals.

According to the preceding views, the value of the precious metals, besides the occasional fluctuations arising from excess, or deficiency, varies in different countries from three causes, to wit:

First. According to their distance from the American mines; the value increasing with the distance.

Second. According to their density of population; the value being directly as the density compared with manufactures, and inversely as the density compared with raw produce.

Third. According to their wealth; the value being greater in rich, than in poor countries.

CHAPTER IX.

OF COIN. — THE METALS USED FOR COINAGE, AND THEIR RESPECTIVE RECOMMENDATIONS.

To further the utility of the metals in their functions of current money, they have been coined into small pieces, of different metals, and of various sizes and denominations, to suit the various payments, required in the ordinary traffic of society; but every piece of the same metal and denomination having the same purity and weight, and characteristic inscription or device; by which means their respective values may be known by simple inspection, and they can be transferred from hand to hand, without the trouble of weighing, or the yet nicer operating of assaying.

This improvement, like the invention of money itself, seems gradually to have grown into use, as experience developed its utility, rather than to have been the contrivance of inventive sagacity. Gold, silver, and copper, appear, in the early ages, to have passed by weight, when used as money; and in the first step towards coin, the rude pieces of metal, that were used as instruments of exchange, were of a known weight, as their names indicate. A talent was a measure of weight as well as of value. Among the Romans, *as* signified

a pound weight, and the money of that denomination at first contained a pound of copper. The *uncia*, in like manner, was the twelfth part of the *as*, both as a weight, and as money. The English pound sterling, in the time of Edward I., contained a pound weight of silver; and a shilling was also at first the denomination of a weight.* So also was the French *livre;* and it is probable that the history of money, in all countries, would show the same fact, that the metals originally passed only by weight, without regard to their forms.

Even after the convenience of having pieces of the same weight and fineness was perceived, it is probable that the office of providing them was left to private individuals, such as goldsmiths, and other workers of the metals, either on their own account, or employed by others, for the sake of giving despatch and facility to commercial transactions. Governments, however, seem everywhere to have soon taken upon themselves this duty, of supplying the community with its circulating coin, and to have regarded it as a peculiar attribute of sovereignty; which, therefore, they have jealously guarded from invasion by the severest penalties. If we may infer their motives from their acts, they seemed to have reserved to themselves the exclusive right of making money, not more for the purpose of preventing the frauds to which the precious metals were exposed when coinage was unrestricted, than to secure to themselves the whole profit from

* Wealth of Nations, I. Chap. IV.

their adulteration, whether by means of alloy, alteration of weight, or of denomination; for they have practised all these modes of debasement, for their own benefit, and to the injustice of the public creditors.

But a juster and more enlightened policy now prevails, and governments, still regarding the coining of money as an act of sovereignty, exercise it solely for the sake of securing to their respective communities a more accurate, convenient, and unvarying measure of value, and universal equivalent. To effect this object, numerous laws have been enacted and regulations made, as they have been suggested by experience, or a better knowledge of the laws of currency, and for the sake of obviating the evils which have grown up in the great extension of wealth and commerce. They have made no small addition to the civil code, and to the science of political economy.

We will consider the subject under the several heads of the different metals used for coins, and their respective qualities; their divisions and denominations; their form and alloy; their wear; the cost of coinage; the policy of a seignorage; a single and a double standard compared; and the difference between gold and silver as a standard.

Gold, silver, and copper are used by all modern nations for their coins, and they are the only metals so used, with the exception of platina, which has lately been coined in Russia.

Each of these metals has its peculiar recommendations and inconveniences. Gold being about

sixteen times as valuable as silver, and generally more than a thousand times as valuable as copper, is, in the same proportion, more portable than either, and is therefore better suited for distant transport and large payments.

But this very superiority of gold over other metals, in containing so much value for its volume, has its disadvantages. It, in the first place, unfits it to represent small values, such as are most in use with the greater part of mankind. A gold coin of the value of twenty-five cents, or even of fifty cents, would be inconveniently small, seeing that it would be but one sixteenth of the silver coin of that value; but one worth only five cents, the value of our smallest silver coin, besides being exposed to extraordinary wear, by its greater proportion of surface to its weight, would be too minute for use.

In the next place, as the base metals can be readily united with gold, so as to escape the notice of the unassisted senses, and the fact can be discovered only by resorting to the troublesome process of assaying, the great value of gold coins peculiarly exposes them to the risk of adulteration. And though the laws punish this fraud with great severity, it is still extensively practised.

Even when the purity of the metal is not impaired, gold coins are often made lighter by filing, clipping, and a simple chemical process, by which a thin scale can be taken from each piece without sensibly altering its appearance or impression. And the uncertainty whether some of these modes

of deterioration have not been practised, lessens the confidence of many individuals, and, at all events, often imposes on them the necessity of weighing the coins, and sometimes of assaying them. The first is an operation of some trouble, and the last, being one of more nicety, can be performed only by technical skill.

On these accounts, the value of gold as a currency is considerably impaired; and these inconveniences have contributed to produce that substitution of paper for gold, which so extensively prevails in the operations of modern commerce.

Silver coins, being free from the same objections, are very convenient for small payments. Presenting little temptation to the counterfeiter, especially the smaller pieces, they are more likely to be pure, and to lose weight only by wear.

They, however, are inconvenient for the large payments, that, in a wealthy community, are of familiar recurrence. One thousand silver dollars weigh nearly 60 pounds avoirdupois; and, consequently, 10,000 dollars, 660 pounds, would be almost an ordinary cart-load.

But no inconsiderable part of the small traffic of society requires coins of yet less value than the smallest silver coins fit for circulation; and the greater cheapness of copper adapts it to coins of that description. There is, indeed, a much greater difference between the values of this metal and silver, than between those of silver and gold, — the first being as 15 or 16 to 1, and the last being perhaps as 50 or 60 to 1: but, as the cost of coin-

age bears a greater proportion to the value of copper coins than it does to that of gold or silver coins, the former need not have a bulk and weight proportioned to their monetary value, which would be inconvenient. There is also in some parts of Europe a mixed metal of silver and copper, called *billon*, which is used for small coins. It is commonly about three fourths copper.

It fortunately happens, that of the three metals, the one which is most liable to rust is the cheapest, and that gold, the most valuable, is the least liable to tarnish, or to be acted on by other agents, there being few acids in the laboratory of the chemist which are its solvents.

The proportion of the circulation, which is filled by each of these metals, varies according to the wealth, the habits, and the laws of different countries. A wealthy community can circulate a much larger proportion of gold than a poor one; and it is only in those in which the precious metals have great exchangeable value, as in Russia, and Sweden, that copper can constitute a large part of its circulation.* Before the discovery of America, it made a far greater part of the currency of some countries than it now does. In some parts of Germany, it constituted the common currency in the 10th century. But there were no copper coins in England until 1665. Before that time, the silver penny† was the smallest coin. This was

* Storch, Liv. V. Chap. II.

† This originally contained a pennyweight of silver, or more than thrice as much as it would now contain.

minted with a deep cross. When it was broken into two parts, each was called a halfpenny; and when into four, each part was called a fourthing, or farthing.*

By way, however, of making some approach to the relative quantities of these metals, we may take the circulation of the following nations as examples:

In Great Britain, the gold currency is estimated at 22,000,000, and the silver at 8,000,000; that is, gold at near three fourths, and silver at something more than one fourth.

In Russia, according to Storch, that part of the currency which consists of the precious metals amounts to 45,000,000 of rubles; and that which is of copper to 25,000,000. Supposing Mr. Gallatin correct in estimating the amount of silver rubles at 25,000,000, then, of the whole metallic circulation in that country, two sevenths would be in gold, and, of the remaining five sevenths, half would be in silver, and half in copper.

In the United States, the difficulty of ascertaining the proportion of the several metals is the greater, in consequence of a large proportion of the silver currency being in dollars, or parts of a dollar, coined in Mexico, or other parts of Spanish America. On this account, the operations of the mint do not furnish here as good data for comparing the relative amounts of the different metals, as in those countries in which foreign coins are regarded as bullion.

* Kelly's Cambist, Vol. I., Introduction, xxix.

The whole coinage of the United States, from 1792 to the 1st of January, 1838, amounts to $72,881,446 48½, and is thus distributed:

In gold, 4,968,526 pieces,	$23,250,340
In silver, 122,621,982 pieces,	48,835,192
In copper, 86,311,265 pieces,	795,914 58½
Total value,	$72,881,446 58½

Though the aggregate amount of money coined does not differ much from the probable amount of metallic currency now in the country, yet the proportion of the several metals is very different from that here indicated, not only from the amount of foreign silver coins in circulation, but also because a large proportion of the gold coins first issued from the mint were either exported or melted up, after the market value rose beyond the proportion settled by law. It is not easy to say what addition to the domestic silver coinage, or deduction from the domestic gold coinage, should be made on these accounts; but, if we suppose that all the gold coined from 1834 to the present time to be in circulation, (as it undoubtedly is, from the effect of the law of 1834, which raised the mint value of gold somewhat above the market value,) this amounted, on the 1st of January last, to about eleven and a half millions. And if we further suppose one fourth of the gold previously issued from the mint to be yet in the country, in the form of coin, which would be about three millions more, our whole gold currency may be set down at fourteen and a half millions, and, consequently,

the silver at about fifty-six or fifty-eight millions. As to the copper coins, we might fairly presume the whole amount issued from the mint to be now in circulation, with a moderate deduction for loss, and for the melting up of those coined before 1795, when it was found necessary to reduce their weight.

According to this conjectural estimate, if our present metallic circulation be divided into one hundred parts, about twenty of these parts would be in gold, seventy-five parts in silver, and one part in copper. Estimating our population, at the same time, at 16,000,000, equal to 3,200,000 families, the average portion to each family would be somewhat more than one piece of gold, equal in value to $4 50; forty-seven pieces of silver, of the value of $18 12; and about twenty-four pieces of copper, worth about 22 cents.

CHAPTER X.

OF THE FORM OF COINS, THE IMPRESSION, AND ALLOY.

We have seen that the precious metals were first used, as instruments of exchange, in rude masses, which passed by weight; but, as soon as, with a view to convenience, they were made to assume the regular form of coin, they seem to have been invariably flat and round; the first, for the advantage of packing and transport, and the last, because, in the circular form, they would lose less by friction than if they were square, or of any other rectilinear figure.

It was also found, that there would be an advantage in mixing gold and silver with cheaper metals. Such a mixture gives to silver, and yet more to gold, a hardness they do not naturally possess, by which they are better able to bear the daily friction to which they are exposed. Nor is this all the advantage. The precious metals are seldom found entirely pure, but are, when most nearly so, more or less mixed with other metals; and the process of completely separating them from such admixture would be difficult and expensive. It is, then, economical to have a standard of purity that is of more easy attainment. The first, however, seems to be the principal reason, since most

virgin gold is far purer than the highest standard that has been adopted.

Copper is the metal that is generally used to give hardness both to gold and silver, and commonly in the proportion of from one twelfth to one tenth.

By the act of 1792, which established the mint, the gold eagle, of the value of ten dollars, was required to contain 247½ grains of pure gold in 270 grains of standard gold; that is, one twelfth of alloy, which was required to be partly silver, to prevent the copper from giving too deep a hue to the gold; but, according to Dr. Seybert,* it not being found necessary, it was virtually disregarded at the mint. The requisition has been continued in the act of 1837; and, since the alloy is now as much as one tenth, it seems to be more important.

By the act of 1834, for the purpose of raising the value of gold, (which, by the act of 1792, had become so greatly undervalued,) an eagle was required to contain only 232 grains of fine in 258 grains of standard gold, which is very near nine tenths of pure gold to one of alloy. And by a subsequent act, (Jan. 18, 1837,) the eagle, containing 258 grains of standard gold, is required to have nine tenths of pure gold and one of alloy, which makes the legal quantity of fine gold in that coin 232.2 grains; that is, one fifth of a grain more than the act of 1834 required.

By the act of 1792, the silver dollar of the

* Statistics, p. 542.

United States was required to contain, in 416 grains of standard, 371¼ grains of pure silver, and 44¾ grains of alloy; or 1485 parts fine to 179 parts of alloy. But, by the act of 1837, the dollar is required to contain 412½ grains of standard silver, of which one tenth is alloy; which is now the proportion in all coins of the United States, whether of silver or gold. In estimating the intrinsic value of coins, the alloy is never regarded.

The parts of an eagle, or a dollar, have, in just proportion, the same relative quantities of pure metal and alloy.

The copper cent, which first contained 11 dwts., or 264 grains, then 216 grains, is now required to contain 168 grains; so that a pound avoirdupois is coined into 41⅔ cents.

The impression on coins, besides having some suitable device, characteristic of the country, or exhibiting its emblems, or the head of its sovereign, always has the date of its coinage, which contributes to the means of estimating the rate of loss on such coins from wear.

CHAPTER XI.

THE DENOMINATIONS AND DIVISIONS OF COINS.

It is obviously important that there should be coins of different values, both of silver and gold, to suit the various occasions of life; but two very different modes of dividing the larger coins have prevailed. One, by halves, quarters, eighths, and sixteenths, — each denomination just the half of the one immediately preceding it; and the other by divisions having the proportions of 1, 10, 100, so as to adapt the current money to the decimal arithmetic.

The last mode is a great convenience, as it contributes to ease, simplicity, and despatch, in all pecuniary dealings, as well as in keeping accounts. Yet, it would seem, from experience, not to be so well suited to the mass of mankind, in their ordinary transactions, as the binary division. Wherever the laws have endeavored to introduce decimal divisions in any species of measure, it has been found extremely difficult to prevail upon the great body of the community to lay aside the divisions to which they have been accustomed,* and their preference for which, by reason of the greater simplicity of those divisions, and often greater

* Report on Weights and Measures, by J. Q. Adams, p. 84.

facility of application, seems to have a foundation in nature.

France, profiting by her experience on this subject, has endeavored to avail herself of both modes of division, in her system of weights and measures, on which Dr. Kelly justly remarks:* "The decimal system is used in all wholesale and government concerns, and is well calculated to facilitate the operations of commerce; but the binary system (that is, dividing standards into halves, quarters, eighths, &c.) is found more convenient in the inferior departments of trade, and particularly in retail business. The former system is, both by its divisions and vocabulary, admirably adapted for universal communication among the learned; but it is, perhaps, too scientific for the common people, to whom the business of weighing and measuring the necessaries of life is chiefly committed in every country."

In like manner, the United States, with a view of obtaining the same double advantage, have adopted the decimal system in their computations and accounts, but have, at the same time, consulted the tastes and habits of the people, by coining halves and quarters of the eagle, halves and quarters of the dollar, and half cents. Nor is the public content with that accommodation, but persists in using halves and fourths of the quarter of a dollar, even where the ten cent and five cent pieces are most accessible, and although the foreign coin, that represent the former, are not suited to our

* Kelly's Cambist, Vol. I., p. 133.

decimal system, and are becoming comparatively scarce.

As the value of so many articles of commerce is measured by their weight, and as weight is one of the principal elements of the value of metallic money, it would be a great convenience, if every coin had a simple and known relation to the ordinary weights in commerce; and yet more, if its weight, as Mr. Say has recommended, was indicated by its name. Every coin would then be a measure of quantity as well as of value.* But, after a system has been adopted, and been long in operation, this benefit would, perhaps, hardly justify a change.

The coins now issued from the mint of the United States are, the half eagle, the quarter eagle, of gold; the half dollar, the quarter dollar, pieces of ten cents and five cents, of silver; and cents and half cents of copper. There are also in circulation both gold and silver dollars; but there have been none of the latter, nor of the eagle of ten dollars, coined at the mint for many years.†

The following foreign coins are now made a legal tender in the United States, by the act of 1834, to wit: the gold coins of Great Britain, Portugal, and Brazil, at 94.8 cents per penny-

* This policy has been adopted in France. A franc piece weighs just 5 grammes; and so of all the coins, whether gold, silver, billon, or copper.

† For the weight and value of the coins of the United States, and of the principal coins of the nations with which we trade, see Appendix, Note I.

weight; those of France at 93.1 cents; and those of Spain, Mexico, and Columbia, at 89.9 cents. The dollars of Mexico, Peru, Chili, and Central America, and those restamped in Brazil, at 100 cents each; and the five franc pieces of France at 93 cents each. All these coins are required to be of a given fineness, to be determined by regular assays at the mint, at least once a year.

Though the money of account adopted by the government, and used by most men of business, consists of dollars and cents, so as to conform to the actual coins, as well as the decimal system, yet the former money of account, of pounds, shillings, and pence, is not yet laid aside, but, in almost all the states, still obtains the ascendancy in popular use. The pound, however, has four different values in the United States; and each of them is inferior to the pound sterling. This inferiority had its origin in the paper currency, which the colonies, in the scarcity of money they experienced, found it convenient to issue, and which all underwent more or less of depreciation. These different kinds of pounds are thus valued and distributed:

In New England, Virginia, Kentucky, Tennessee, Ohio, Indiana, and Mississippi, the pound is	$3\frac{1}{3}$,	and the	dollar	6 s.
New York and North Carolina,	$2\frac{1}{2}$,	"	"	8 s.
Penn., New Jersey, and Delaware,	$2\frac{5}{7}$,	"	"	7 s. 6 d.
South Carolina and Georgia,	$4\frac{2}{7}$,	"	"	4 s. 8 d.

In the other states, there is either no uniform money of account, (but in one part that of one state, and in another that of another, prevails,) or they reckon altogether in dollars and cents.

CHAPTER XII.

THE WEAR OF DIFFERENT COINS COMPARED.

The loss, which different coins sustain in handling and friction, is different in silver and gold; and it varies in both according to the size of the coins, to the different kinds of alloy, and to their being more or less adapted to familiar use.

Gold coins lose much less from wear than those of silver, partly from the greater fineness of the metal, and partly from their being more carefully and less frequently used.

Coins of gold that is pure or approaching to it, lose much more from wear than when mixt with alloy, and the loss is less with an alloy of silver, or half silver and half copper, than with one of copper, tin, or iron.

Of coins of the same metal, the loss by abrasion being in parity of circumstances nearly in proportion to the surfaces, the largest which contain more value, in proportion to their weight, lose the least. So also do those coins, which are in most frequent use, because they are best suited to the pecuniary transactions of the largest class of the community. Thus half dollars are more used than dollars, and quarters more used than either. These indeed, in some communities, may be in

more frequent use than coins either of greater or of less value. So if gold coins were more common, half eagles might perhaps be more used than either whole or quarter eagles — the first sharing the circulation with bank notes, and the last with silver.

There will therefore be some difference in the loss from the abrasion of coins between rich and poor countries; the coins most in use being of greater value in the former, and consequently liable to a smaller proportional loss.

Nothing but experience could determine the results of these different circumstances in different coins. According to a set of experiments made under the authority of the British government, about the beginning of the present century, it appeared:

That the loss from wear, sustained by standard gold having an alloy of one twelfth, was less than by gold of greater purity.

That the loss on standard gold was also less than gold of less purity.

That the loss was less with an alloy of silver alone, or of silver and copper in equal quantities, than it was with copper alone, copper and tin, or copper and iron.

That the loss on standard silver was less than on standard gold, and about equal to the loss on gold of the finest quality ,that can be worked, that is, 23¾ parts fine in 24; and which loses four times as much as standard gold.

That silver loses less than copper.

That coins lose more the first year after they *are put into* circulation, than subsequently.

That the loss is greater on stamped pieces, than on pieces with smooth surfaces, and that embossed pieces lose more than those that are smooth.

That the degree of circulation the coins had undergone was better indicated by the dirt which was found, by washing, to adhere to them, than by the dates of their emission.

The difference of loss from coins of different sizes, and in different degrees of use, has been also exhibited by experiment. Thus it appears by that of the officers of the English mint in 1787, that of the silver coins then in circulation, the loss on crowns was, disregarding fractions, about 3 per cent.; on half crowns, about 10 per cent.; on shillings, 24 per cent.; and on sixpences, 38 per cent.

And by another series of experiments, made at the mint in 1816, the loss on sovereigns for the average of five years was, 0.726 per cent.; and on half sovereigns was 0.883 per cent. On half crowns, for the same average time, 2.28 per cent.; on shillings, 2.88 per cent.; and on sixpences, 3.26 per cent.*

Agreeably to the experiment made at the mint of the United States, on the eagle, half eagle, and quarter eagle, the loss they severally sustained in fifty years appeared to be in the proportion of 1, 2, 3, and that sustained by the dollar, half dollar, quarter, dime of ten cents, and half dime, respectively, were as 1, 2, 3½, 6, and 10.

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* See Appendix, Note 2.

Mr. Jacob estimates the loss on English gold coins, from the preceding experiments in England, at one part in 800, yearly; and the loss on silver coins, as exceeding one part in 200. But, making allowance for the greater loss on the coinage of other countries, and for the greater value of circulating money in silver, than in gold, throughout the world, (which he estimates at 4 to 1,) he considers the general loss of silver and gold, from wear, to be nearly the same in both metals, and that it may be set down as one part in four hundred and twenty, in a year.

Whether, however, it is more or less than this average, in any particular country, must depend upon the proportion which gold and silver severally hold in its circulation, on the character and proportion of its alloy, and on the size of the coins most in use. The annual loss in the United States is estimated by Mr. Gallatin at not more than 70,000 dollars on a metallic circulation of 40 millions, or little more than a six hundredth part, annually. But, when it is recollected that our active metallic circulation is almost wholly silver, and that a very large proportion of this is in half dollars,* Mr. Gallatin's estimate seems to be too low. It appears by the official experiment at the English mint, in 1826, that the loss on half crowns was about the half of one per cent., or one part in two hundred annually; and, by a previous experiment

* Of the 46 millions of silver which had been coined before 1837, 42 millions were in half dollars.

in 1798, that the loss on shillings, for eleven years, had been at about the same rate, though those then in circulation had become so smooth from long use, that the loss from wear was much less than the average.* Supposing, then, the greater rate of loss on the smaller silver coins to counterbalance the smaller loss on our gold circulation, and on Spanish dollars, the loss on the half dollars may be taken as the average loss on the whole metallic circulation. Estimating this at a two hundredth part, agreeably to the experience of similar coins in England, and supposing the whole circulation of the United States to be $70,000,000, the annual loss by wear would be $350,000 a year. And if we suppose the wear on ten millions of gold in the vaults of the banks to be absolutely nothing, (and the loss on a very large amount must be very insignificant,) this would reduce the annual loss on our whole currency, on the previous data, only to $300,000.

* Jacob on the Precious Metals, Chap. XXIII.

CHAPTER XIII.

THE COST OF COINAGE.

As almost all nations choose to coin money for themselves, a part of the price which each one pays for this instrument of commerce is the expense of its mint establishment. This consists of the cost of the buildings, of the machinery and tools required in coining, of salaries of the officers of the mint, its artists and workmen, and of the loss of the metals and other expenses incurred in the process of refining, stamping, filing, and the like. Sometimes, indeed, the expense of coining is immediately borne by the individuals who carry bullion to the mint to be converted into coin; but the cost does not therefore the less fall upon the nation. In that case, no less than where the coinage is gratuitous, so much of the natural stock is expended to procure the benefit of coin.

These expenses vary not only in coins of different metals, and of different sizes, but also in different countries, according as they vary in the price of ordinary labor, and yet more in that of the scientific skill and mechanical art which the business of coining requires.

The proportional cost of coining gold must be much less than that of silver, as the expense on a

given quantity is nearly the same, while the value of gold is sixteen times as great as that of silver. The difference of expense is, however, much less than the difference of value, as the loss or waste from refining, melting, filing, &c., is proportionally the same, or nearly so, in both metals. More nicety, too, is required in adjusting both the alloy and the weight of gold coins.

The smaller the coin, too, the greater must be the proportional cost of the coining. The die of a half eagle will cost far more than half that of a whole one. The mechanical force employed is greater in the smaller coins, in proportion to their value; and the time expended by the workmen, which is the most important item of the expense, is nearly the same in a small coin as a large one.

According to Storch, the expense of coinage in France, England, Denmark, and Russia, is as follows:

In France, on gold coins,	0.29	per cent.; on silver,	1.50	per cent.
In England,	"	"	0.70	"	"	2.22	"
In Denmark,	"	"	——	"	"	2.	"
In Russia,	"	"	0.85	"	"	2.95	"
Smaller coins of 25 copecs,					"	3.47	"
" " of 10 copecs,						4.44	"

There are no data for estimating the separate cost of the different species of coin in the United States; but the whole annual expense of the mint establishment for sixteen years, from 1802 to 1817, was $352,853, during which time the value of the coins struck at the mint was $11,138,672, which is equal to a charge of about 3⅛ per cent.* But, in

* Seybert's Statistics, p. 549.

the ten succeeding years, (with the exception of 1821,) the expenses were $224,783, on an amount of coinage during the same term, of $15,300,340, which is equal to a charge of only 1½ per cent.

But, since the annual coinage has increased, the proportional expense has been yet farther diminished. When the coinage was, in the seven years from 1824 to 1830, $15,806,270, averaging $2,258,000 a year, it scarcely exceeded one per cent. Dr. Moore, the former director of the mint, estimated the cost of silver, when it amounted to three millions, at about ⅝ of 1 per cent., and the charge on the same amount of gold coinage at ½ of 1 per cent. This, however, is exclusive of wastage, which, on gold, is about ⅕, and on silver about ¼ of one per cent.*

The expenses of the mint establishment have been lately considerably increased by the creation of three branch mints, to wit: one at New Orleans, for the coinage of gold and silver; one at Charlotte, in North Carolina; and another at Dahlohnnega, in Georgia, for the coinage of gold only.

As in the operations of alloying the precious metals, and of giving each coin its requisite purity and weight, perfect accuracy is not attainable in practice, but some coins will have more than their just proportion of alloy, and some less; and there will also be small irregularities of weight; — by a general regulation of law, a stated allowance is made for their occasional deviations from the

* Report of the Secretary of the Treasury on Coins, in 1831.

standard fineness and weight of coins, which allowance is technically called the *remedy of the mint.* It is founded on the inaccuracies that are unavoidable in the practical operations of coining; and it assumes that small errors of deficiency, in the coins examined, are compensated by errors of excess in the coins not examined.

The *remedy* may be for the weight alone, or the fineness alone, but it commonly is for both. At the United States mint, the remedy for both gold and silver was, by the law of 1792, one part in 144. This was an unusually large allowance. By the act of 1834, it was reduced, in gold coinage, to 1 part in 384, in fineness, and one part in 500, in weight; and, by the act of 1837, the remedy for both gold and silver coins has been farther altered, and graduated to suit the different coins both of silver and gold; and one rule of deviation is adopted for single coins, and another for 1000, or other large number.* The depositor of bullion is also charged with the cost of refining, when it is necessary, and with that of the alloy.†

But, besides these just allowances, there is, at some mints, a farther deduction made at the expense of those who have their bullion converted into coin, which, in some countries, is limited by the estimated expense of coining, and in others is

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* See Appendix, Note 3.

† At the English mint, the remedy for gold coins is $\frac{1}{3\,6\,4}$ in the weight, and $\frac{1}{4\,8\,0}$ in the fineness. For silver, it is $\frac{1}{2\,4\,0}$ for the weight, and the same for the fineness, by which the whole allowance may be $\frac{1}{1\,2\,0}$. The remedy at the French mint is much less.

made to yield a profit to the government. In all cases in which the mint issues coins above their intrinsic value, the excess is generally called a *seignorage*, though some writers limit the term to the case when the charge exceeds the cost of coinage.* The charges for mint expenses are called, at the English mint, *brassage*.

There are, then, three different modes pursued in different countries, as to the amount of coin returned for bullion brought to the mint. 1. In some, as in the United States, Russia, and England, as to gold coins, no charge is made, and no deduction from the intrinsic value of the coin, (except the *remedy* should be so regarded;) but those who carry bullion to the mint receive the whole of it back in standard coin.†

2. Another mode is to charge the expense of coinage on the bullion converted into coin, which is done by affixing a value to the coin beyond its value in bullion, to the amount of the expenses. This is now the practice in France.

3. And, lastly, governments not content with a mere indemnification, so raise the value they affix to the coin as to yield a profit. This is the case in most of the European governments, with all their coins; in England, with its silver coins, and in the United States, with its copper coinage. The effects of these several plans will be considered in the next chapter.†

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* Storch, Say, &c.

† For the regulations of the mint of the United States, see Appendix, Note 4.

CHAPTER XIV.

THE POLICY OF A GRATUITOUS COINAGE AND OF A SEIGNORAGE COMPARED.

THE arguments and considerations, which seem to have recommended the practice of converting bullion into coin, free of any charge, to the few governments which have adopted it, seem to have been the following:

The intrinsic and permanent value of the precious metals is measured by their weight and purity, independent of their form; and, however they may, by the force of law, have an artificial value imposed on them, in the form of coins, yet, when sent abroad, they will be estimated by the general standard of the world, which disregards any thing but the quantity and fineness of the metal: that, as no real addition can thus be made to the value of the metals by coining, there can be no inducement to charge a seignorage for the sake of indemnifying the community, since the charge is borne by the nation in either case; in either, the national capital is diminished by the cost of coinage, and the public finds, in both cases, its remuneration, in the utility of a metallic currency: that, as the cost and the benefit are in both cases the same, it is better that the legal value should

conform to the intrinsic value, both at home and abroad, than that the former should be arbitrarily raised, as such variance produces embarrassment in commercial transactions, is unjust to creditors in the first instance, tempts to counterfeiting the coin by the profit made on bullion, and takes away all inducement from individuals to carry bullion to the mint; in which case, either the nation is not supplied with domestic coins, or the government is subjected to the trouble and expense of providing bullion, and of putting the coin into circulation: and, lastly, that when once the line is passed, and money is made to circulate for more than its intrinsic value, governments will not be content with the mere expense of coinage, but will make the seignorage a source of profit, by which the evils already mentioned will be proportionally enhanced.

On the other hand, in favor of a moderate seignorage, or charge sufficient to defray the expenses of coinage, it is urged, that it is not true, that coin has no greater intrinsic value than the metal it contains; for the latter has acquired additional value by its new property of saving the trouble of weighing and assaying, as is proved even in England, where the gold coinage is gratuitous, and where, in consequence of the time which each person who carries bullion to the mint has to wait for his turn, coin is commonly worth $\frac{2}{5}$ of one per cent. more that bullion: that, when the gold and silver of individuals have thus been improved in value, there is no more reason why they should not pay for this manufacture than for any other;

and although the community is also benefited, by being thus supplied with an useful instrument of commerce, yet it has been thought, in analogous cases, both politic and just, to let the expense fall on those who are immediately benefited, in proportion to the benefit they have severally received, as in the case of canals, turnpike roads, and the post-office: that there is the less objection to this course in the case of coins, because, when once the payment of a seignorage is the only condition upon which metal can be converted into coin, the amount of such seignorage then enters into the value of the coin, and consequently, he who has paid it receives it back when he puts the coin into circulation; the expense thus falls upon the whole mass of buyers and sellers, who receive the benefit, that is, upon the whole community.

It is further urged, that this charge on the community is greatly enhanced where the coinage is gratuitous; that although coin is really more valuable than the metal of which it is formed, yet, where the government charges nothing for its fabrication, it will be worth no more in the market; the consequence will be, that, whenever gold and silver are wanted for exportation, or for the workshop, coin will be used as readily for these purposes as bullion; whereas, when the value of coin has been enhanced by a seignorage, bullion would be preferred, inasmuch as the additional value would be lost in the foreign country, or by melting.

This mischief is increased, when the coin has become much worn, and the market price of bul-

lion, in such deteriorated coin, exceeds the mint price in coin of full weight. As the worn coins pass current, by the force of habit, at their original and legal value, in the common transactions of life, but a greater amount in the same coins can be obtained in the market, in exchange for bullion, the coins fresh from the mint, being of full weight, are melted up, and sold as bullion. Adam Smith,* adverting to this state of things in Great Britain, a short time before he wrote, thus remarks on it: "There was an evident profit, therefore, in melting down new-coined money; and it was done so instantaneously, that no precaution of government could prevent it. The operations of the mint were, upon this account, somewhat like the web of Penelope: the work that was done in the day was undone in the night. The mint was employed, not so much in making daily additions to the coin, as in replacing the very best part of it, which was daily melted down."

Nor is this all; for, when money charged with a seignorage is sent abroad, as it occasionally will be, from a deficiency of bullion, it is more likely to return than when it has been gratuitously coined; as the latter is worth no more at home than its weight in bullion, while the former has an additional value, equal to the seignorage. In consequence of this advantage, the coin that has paid a seignorage will commonly be worth something more, even in foreign countries, than the pure metal it contains.

* Wealth of Nations, Vol. II., Chap. vi.

And, lastly, a seignorage not only renders less coining necessary, by preserving it from melting or exportation, but it also economizes in the quantity of gold or silver required for the same amount and value of coins. Thus, let us suppose the expense of coinage to be 2 per cent., and that, by a seignorage, the value of the coin is enhanced to that extent; it is clear, then, that 98 ounces of gold or silver are made to furnish as much coin, capable of performing the same purposes, as 100 ounces, where the coining is gratuitous. If, in the United States, we estimate our whole metallic currency at 70,000,000, and the expense at 2 per cent., the sum that a seignorage would save in the gold and silver would amount to $1,400,000.

These arguments in favor of a moderate seignorage seem greatly to preponderate; and, accordingly, all writers on political economy have concurred with Adam Smith, in favor of that policy.

It may seem to some to afford presumptive evidence against the soundness of the reasoning of these writers, that, in England, where the interests of commerce are so well understood, no seignorage should be charged on gold, its principal currency; especially, as it is only since the year 1666, that the coinage has been gratuitous, or duty free. But Smith* attributes the introduction of the law, which then passed "for encouraging of the coinage of gold and silver," to the prevalent notions of the "mercantile system," by which the wealth of a nation was

* Wealth of Nations, Vol. II., Chap. iv.

supposed to consist in its money; and its continuance, to the influence of the bank of England, which, to replenish its coffers, furnishes the mint with its principal supplies, and which imagined that the charge of a seignorage would fall upon them. It is also probable, as he suggests, that the relative insignificance of the annual saving, to which may be added the force of long-established usage, have contributed to continue what Smith calls their "useless piece of public generosity." The example of England may account for its adoption in Russia and in the United States, conjoined, perhaps, with the belief, that a gratuitous coinage was necessary to insure an adequate supply of gold and silver to the mint.

While Great Britain coins gold free of charge, she receives a heavy seignorage on silver; but its precise amount fluctuates with the market price of that metal. A pound of silver, according to the present standard, consists of 222 dwts. of pure silver, and 18 dwts. of alloy. This pound is coined into 66 shillings; but its value, according to the ordinary market price of silver bullion, is but 62 shillings; by which the government receives a seignorage of 4 shillings in every 62, or $6\frac{14}{31}$ per cent. To prevent, however, a redundancy, (to which an overvalued coin always tends,) the silver coinage is not, like the gold, left free to all, but is retained in the hands of the government. Nor is this overvalued silver a legal tender to a greater amount than 40 shillings.

In their copper coins, all nations charge a large

seignorage. In England, the avoirdupois pound of copper is coined into 24 pence,* which is equal to £224 per ton. But this is more than double its ordinary current price in Great Britain.† It is not, however, a lawful tender beyond 12 pence.

In the United States, also, its copper coinage yields a considerable profit to the government. In 1831, the director of the mint states, that, after paying the expense of distributing the copper coins to all parts of the United States, the profit on this part of the coinage, for the sixteen years preceding, was $86,000; and that it might, for the future, be estimated at $10,000 a year. This must be deducted from the annual expenses of the mint. Where, however, the profit is as great as it is in England, there is always a probability that it will be shared by counterfeiters, as is said to be the fact in that country; and if the same thing has not occurred in the United States, it is because the rate of profit is much smaller, and because the requisite skill and machinery cannot yet be obtained here but at a much higher rate. In the preceding remarks in favor of a seignorage, it has been assumed that it should not exceed the cost of coinage; and it is certainly the safest course, that it should be limited by that cost. It is clear, however, that, if the additional utility imparted to the metal by its conversion into coin, is such that

* Kelly's Cambist, Vol. I, p. 217.

† McCulloch's Com. Dict., Art. *Copper*.

the public would pay more than the cost, rather than not obtain it, it would be in the power of the government (which reserves to itself the monopoly of this manufacture) to exact more than the cost; and nothing could hinder it from reaching the utmost limit of what the public would pay, but the rivalship of counterfeiters; and the expenses might be doubled, or, perhaps, trebled, before they would be tempted to fabricate coins of the standard weight and purity. Adam Smith seems to think that the seignorage in England might have been four or five per cent. without inconvenience; and Say, in opposition to Storch, thinks that coinage may not only defray its own expense, but yield a profit to the government.

Whatever difference of opinion there may be on this point, there seems to be no room for any as to the limits of the profit it is possible for the government to make. Whether it be diminished by counterfeiters, or not, it can never exceed the additional value which coin has over bullion; and every attempt to exceed this limit will eventually prove fruitless. Whatever may be the price which the government arbitrarily affixes to its coin, it will pass, in foreign countries, for no more than its intrinsic value; and the knowledge of this fact will prevent its excessive value at home. Holders of bullion will, therefore, not carry it to the mint to exchange it for coin by which they are certain to lose. If, however, the government itself becomes the purchaser of gold and silver for the mint, it may, indeed, put the money it has charged

with an excessive seignorage into circulation, by paying it to its officers or its creditors; but such injustice is sure to produce its ordinary reaction. The same overvalued money is repaid to it in all its levies on the community; and, in its subsequent contracts, the depreciation will be taken into account, in the terms of such contracts. Nor is it easy to make such depreciated money perform the functions of currency; but foreign coins, bankers' drafts, and other substitutes, will be resorted to in preference. Some of the governments of Europe, having experienced these evils from a seignorage of 20 per cent., have found it necessary to retrace their steps, and reduce it to the actual expense of coinage.

Storch suggests, as a means of saving the coins of a country from the crucible, where the coinage is gratuitous, that there should be a somewhat higher standard for gold and silver plate than for coin, by which, as the workers in those metals would be subjected to the necessity of refining, to bring the coins to the legal standard for plate, they would, to avoid that trouble, endeavor to purchase bullion, in preference to melting up the coin.* And such is the practice in Russia. The expedient is, however, at present, impracticable in this country, where there is no legal standard for plate. The want of such a regulation gives some advantage to foreign manufacturers, whose work has

* It is worthy of remark, that the same policy was recommended by Mr. Jefferson to the old Congress, in 1784. See Jeff. Cor., Vol. I., p. 137.

been assayed and stamped by officers appointed for the purpose; whereas, the purchasers of plate of domestic manufacture have to rely solely on the integrity of the manufacturer. Whether time may not bring a remedy for this inconvenience, and our goldsmiths and silversmiths may not acquire that degree of confidence, which would make their plate equal in value to that stamped at the Tower of London, when such confidence would be a source of so much profit, — or whether we shall continue to rely on protecting duties, in mitigation of the evil, — or, lastly, whether some of the state legislatures may not, by assay offices, supply the remedy, — is yet to be determined.

CHAPTER XV.

THE POLICY OF A SINGLE AND OF A DOUBLE STANDARD COMPARED.

We have seen that each of the precious metals has its separate recommendations for coin; that gold is most convenient for large payments, and silver for small ones. Both of them have, therefore, been used as money by all civilized nations. But, where both are used as measures of the value of other commodities, their value to one another must also be determined. If the same piece of merchandise may be purchased, or the same debt be paid, either by so many pieces of gold, or so many pieces of silver, the relative value of the silver and gold is necessarily involved.

But the relative value of these metals, like that of every thing else exchangeable, is liable to fluctuation. We have seen that their values have varied in different ages, that they are very different in different countries, and that they are subject to fluctuation in the same country. And although some of these changes are common to both metals, yet each is subject to its own change, by an alteration in its supply or demand; and thus their relative value may be affected by the rise or fall of either metal. We accordingly find, that their rel-

ative value has varied, at different times, and in different countries, from 8 to 1 to 16 to 1, and that they have had opposite fluctuations in the same country, in the course of a century or less.

The convenience of having both these metals as money, and the inconvenience arising from the unsteadiness of their value to one another, have given rise to the question, whether it is better for the law to make one metal, or both, the standard of value in all pecuniary contracts; that is, whether every debtor should be compelled to pay in the metal selected as the standard, or have the option of paying in either.

Though the writers on the theory of money have, with scarce an exception, since the days of Locke, concurred in the advantages of a single standard, yet they have, as yet, prevailed but upon two nations to adopt it in practice: Great Britain, with some qualification, and Russia. In other countries, either the inconvenience of a double standard, which is only occasional, has been unheeded, or they have thought it necessary to make both metals a legal tender, to secure the benefit of both currencies. This has, apparently, been the case in the United States, where, after full and repeated discussions of the question, they decided, in 1834, on continuing their first policy of making both metals equally the measures of value of all other commodities; but, in readjusting their value to each other, they changed the weight of the fine gold in the eagle of ten dollars from 247½ grains to 232 grains; whereby, as the dollar contains 371

grains of fine silver, the proportion of gold to silver has been altered from 15 to 1 to 16 to 1.

The advantages relied on, in favor of a single standard, are, that it is more favorable to justice between debtor and creditor, in the execution of contracts, and that it is the only effectual mode of keeping a country adequately supplied with both species of coin.

In the first place, as to its effect upon contracts. It is clear, that, as either gold or silver may, in any given period, either rise or fall in value, compared with other commodities, or remain stationary, there are nine contingencies to be considered, in estimating their relative value: one in which both metals remain unchanged in value, and eight in which one metal or both have undergone an alteration of value. Let us compare the effects of a single and a double standard on debtor and creditor, in these eight contingencies.

First, in the case of a single standard, which we will suppose to be silver:

1. If both metals rise in value, then the creditor gains, and the debtor loses.

2. If they both fall, the creditor loses, and the debtor gains.

3. If silver remains stationary, and gold rises, then neither debtor nor creditor gains.

4. If silver be stationary, and gold falls, the same, to both parties, as before.

5. If silver rises, and gold is stationary, the creditor gains, and the debtor loses.

6. If silver rises, and gold falls, the creditor gains, and the debtor loses.

7. If silver falls, and gold is stationary, the creditor loses, and the debtor gains.

8. If silver falls, and gold rises, the creditor loses, and the debtor gains.

Secondly, when both gold and silver are legal tenders:

1. If both metals rise in value, the creditor gains, and the debtor loses.

2. If both fall, the creditor loses, the debtor gains.

3. If silver is stationary, and gold rises, as payment in silver will be preferred, the creditor neither gains nor loses.

4. If silver is stationary, and gold falls, as payment in gold will then be preferred, the creditor loses, and the debtor gains.

5. If silver rises, and gold is stationary, the debtor will pay in gold, and, consequently, neither party will gain or lose.

6. If silver rises, and gold falls, the creditor loses, and the debtor gains.

7. If silver falls, and gold is stationary, the debtor will then choose to pay in silver; by which he will gain, and the creditor lose.

8. If silver falls, and gold rises, as before, the creditor loses, and the debtor gains.

It appears, from the preceding comparative view, that, in both cases, there are two of the eight contingencies, in which the interests of creditors and debtors are unaffected; that, in the other six, in-

justice is done by the absolute or relative change in the value of the metals; and, consequently, that, so far as respects the invariableness of the standard, there is no difference, whether one or both metals be made a legal tender; but, that, so far as it respects debtor and creditor, there is a very great difference; for, of the six contingencies that work injustice, there are three, in the case of a single standard, by which the creditor gains, and three by which he loses, so as to make the favorable and unfavorable chances precisely equal; but, in the case of a double standard, when the debtor may profit by the fall of either metal, there are five of the six cases of injustice in which the creditor loses, and only one in which he gains.

It may, however, be remarked, that, as these changes in the value of the precious metals are slow, for the reasons that have been previously stated, — and can, therefore, only affect the small proportion of contracts which require many years for their execution, — the objection to a double standard, on account of its influence on the execution of contracts, seems not entitled to much consideration; and the less, when it is recollected, that the loss is most likely to fall on the party best able to bear it, and that even this probability may be taken into the estimate, when the contract is made.

It is, then, on the second ground, that the advocates for a single standard must mainly rely; that is, that it is most favorable to an adequate supply of both metals.

Whenever the law has made both metals a legal tender, and, consequently, determined their relative value, if, in the fluctuations to which they are subject, their proportional value in the market should differ from that affixed by law, all debts will be paid in the overvalued metal, and that which is undervalued becomes an article of merchandise, and is either exported to countries where it is more justly appreciated, or it is manufactured into plate. This was the case with the gold currency of the United States, when its price in the market had risen 4 or 5 per cent. above the price in silver affixed to it by law. Eagles then commanded a premium in the market, and, of course, ceased to circulate as money.

It is, in like manner, imputed to the discrepancy between the legal and the market proportional value of the metals, that gold has become the principal currency of England, and silver that of France. When in England the law of 1717 rated the guineas as equivalent to 21 shillings, it is considered to have overvalued gold, compared with silver, $1\frac{9}{31}$ per cent.* And in France, before the recoinage in 1785, the *louis d'or* was worth, in the market, 24 livres, 8 or 10 sous, though it was rated by law at only 24 livres. In this way, gold being overvalued in England, all large payments were made in that metal, and it became the only currency, except silver coins under weight; while silver, being, before 1785, the overvalued metal in

* Liverpool on Coins, p. 85.

France, became there the exclusive currency. Since the error has been corrected by a recoinage, silver still continues to be the prevalent currency, partly from the force of habit, and partly from the frauds to which gold coins are, by their great value, peculiarly exposed.*

If, however, but one metal is made a legal tender, then there being no discrepancy between the legal and the market value of the other, it will be taken by every one, according to its market rate, and there will be no inducement to export it, or to melt it, in preference to the other metal. Thus, when American eagles were worth, to brokers and goldsmiths, 10 dollars and 50 or 60 cents, if every one — the banks, the custom-house, the post-office — had been at liberty to receive them at the same value, they might have circulated as readily and as generally, at those advanced rates, as when they had passed at $10, saving the slight inconvenience of the fraction of a dollar, which, however, would not have been greater than guineas in England, when they were worth 21 shillings.

But some have supposed that unless both metals be made a legal tender, and have their proportional values fixed by law, they will not circulate. They seem to have drawn this inference from assimilating domestic coins, that are not a legal tender, to foreign coins. But they are widely different. Coins struck at the mint by authority of law, will have, with every community, a warrant

* Say's Pol. Econ., Book I. Chap. XXI.

for their intrinsic value, that is, for their weight and purity, that foreign coins may not possess, and are likely to obtain as general a currency from the public confidence, as if their credit was enforced by law.

Let us suppose that English sovereigns issued from the mint as at present, but that creditors were no longer compelled to receive them in England, in discharge of their debts, and that nothing was a legal tender there but gold or silver bullion of a certain fineness. Can it be doubted that they would, nevertheless, have the same general circulation then as now, and that the advantage they possess as coin, in saving the trouble of weighing and assaying, would compensate, and perhaps more than compensate, the single disadvantage of not being forced on a creditor? In the reign of William and Mary, gold was not a legal tender; yet, as gold coins were then struck at the mint, we must presume that they had a general circulation. Sovereigns are now worth about $\frac{1}{2}$ or $\frac{2}{3}$ of 1 per cent., in that country, more than bullion, on account of the delay at the mint which each one must bear in turn, and they might have been worth as much at that time. So, if Spanish dollars were not a legal tender in the United States, they would not circulate a whit the less. On this subject we have also some experience in the United States. From the year 1797 to 1806, all foreign coins, except "Spanish milled dollars, and parts thereof," ceased to be a legal tender in the United States;*

* Seybert's Stat, 543.

yet, during that period, the gold coins of Great Britain, Portugal, and France, constituted a large part of the metallic currency of the United States; and their market price, as compared with silver, not then differing much from the proportion that had been previously fixed by law, they continued to pass at the same rate. In like manner, from 1809 to 1816, foreign gold coins were no part of the currency recognized by the law, yet no one who had them found any difficulty in passing them at the same rate as the current coins of the country, especially if they were such as the public were familiar with. If they did not have quite as ready and general a circulation as our domestic gold coins, it was not because they had ceased to be a legal tender, but because, many of them being worn and clipped, it was necessary to weigh them; an inconvenience from which the public were saved by eagles and bank notes.

These bank notes themselves, that have so general a circulation, are never a legal tender. But, it will be said, they are payable in money which is a legal tender; and they are taken on the faith that they can be exchanged for such money when it is wanted. Such confident expectation is indeed generally entertained; but yet, when, last year, (1837,) it was disappointed by the suspension of specie payments, the notes of the banks did not the less circulate. How, then, can we doubt, that that which has the same intrinsic value as the standard coin will obtain circulation, merely because it has no aid from the law, when

we see that which has as little aid, and no intrinsic value whatever, perform all the functions of a currency, by the mere credit it has acquired?

Though, by the practice of nations, we want the light of European experience on this question, it is afforded in a solitary instance. Russia is the only country in which but one metal is made a legal tender; and, there, according to Storch, payment is made indifferently in silver, the standard metal, or gold, according to its market value in silver. "Whenever," he says, "the engagement to pay is in money, and not in paper, the price of every thing is regulated by the value of silver; but gold is not on that account the less received in payments, provided it be valued in silver currency, according to the rate established by the course of trade. Neither of the contracting parties being able either to gain or to lose, in giving or receiving one metal or the other, it is equally indifferent to both, in what money payment is made, and the two metals circulate concurrently without injuring or depreciating one another.*

* Storch, Econ. Pol., Liv. V. Chap. VIII.

CHAPTER XVI.

OBJECTIONS TO A SINGLE STANDARD EXAMINED.

But the advocates for making both metals a legal tender insist, that, whenever their relative value in the market differs from that fixed by law, so much as to begin to drive the undervalued metal out of circulation, a remedy for the mischief may be found in an alteration of the law, so as to make the legal proportional value of gold to silver conform to that of the market.

To this there are two answers. In the first place, the remedy is not commensurate with the mischief. It will not be called for, until the evil is seriously felt from the exportation or melting of the undervalued metal; and then the readjustment may be so delayed by the various impediments to which legislative action is exposed, that, when it does take place, the country may be completely drained of the metal it had previously underrated. The policy of the change may be opposed by private interests, real or imaginary; or by discordant plans of reform; or be postponed to preponderating party or political objects. On this subject we may speak experimentally. The American eagles had been, for some years, gradually disappearing from circulation, before a remedy was at-

tempted in congress, and the subject was there agitated some five or six years, before a remedy was provided, in 1834, by raising the proportion of gold to silver, from 15 to 16 to 1. But when this law passed, all the eagles and half eagles issued under the law of 1792 had found their way either to Europe, or the melting-pot.

Let us, however, suppose that the same course of delay and contention, which occurred then, would not occur again; the remedy itself would be productive of inconvenience. It would cure one evil, only by creating another. The adaptation of the coin to the altered relative value of the two metals, could be made only by changing the value either of the gold, or the silver; and, supposing the alteration to be made in the gold coins, as was the case in 1834, and as would always be done in this country, so long as silver constitutes its chief currency, — then there would be eagles and parts of eagles of different values, in circulation at the same time; and, the same thing recurring at every subsequent alteration in the relative value of gold, there would be as many varieties of coin, having the same denomination, as there had been changes in the value of the metal. Had congress, instead of waiting until all the American gold coins were driven out of circulation, reformed its legal value as soon as it was perceived to deviate from the market value, we might, by this time, have eagles of five or six different values in circulation together — at first, worth $10, then, in succession, $10\frac{1}{8}$, $10\frac{1}{4}$, $10\frac{3}{8}$, $10\frac{1}{2}$, and $10\frac{5}{8}$; so that, none

but mercantile men and money-changers knowing which was which, they would cease to have a general currency, and pass only by weight. Nor could this inconvenience be prevented, but by a re-coinage with every alteration of the legal standard; a corrective of the mischief, which, to say nothing of the expense, would operate very partially in this extensive country.

It is true, that in the case of a single standard, in the fluctuations to which the relative value of gold and silver is liable, the same gold coins will pass at different values, at different times; but it is surely a far less inconvenience that there should be a disparity of value of the same coin at different periods, and these probably distant, than that there should be a disparity in similar coins, circulating at the same time. If all the coins of the same denomination are always of the same value at the same period, it is probably of no more importance that they have borne a different value in the same place, at a different time, than if they have borne it in a different place, at the same time.

It has been thought, however, by some, that the law of 1792, in estimating the relative value of gold to silver at 15 to 1, estimated gold too low; and that it is to this error that the banishment of the American gold coins is principally to be attributed. But the correctness of this opinion may well be questioned. In France, indeed, at the time the American mint was established, the value of gold to silver, by the mint regulations, was 15½ for 1, and that seemed very nearly to correspond

with the market rate; but, in England, with which country our commerce was principally carried on, and to whose relative value of the two metals it was therefore of more importance that ours should conform, the proportional value of gold and silver in the market was nearly that adopted in the United States. It is true, that, by the mint regulations of that country in 1774, which, of a pound of standard gold, coined 44½ guineas, and of a pound of standard silver, 62 shillings, the proportion appeared to be 15.2 to 1. But this proportion, it is agreed by all British writers, rated silver too low, and gold too high. Adam Smith distinctly states, that, at that time, as well as when he published his third edition, in 1784, silver was underrated in proportion to gold, and that the market price of standard silver bullion was not five shillings and two pence an ounce, (the mint price,) but had been from five shillings and three pence to five shillings and five pence.* If we take the average at five shillings and four pence, then the market price of silver to gold is not quite as 1 to 14.75, and of course rates gold lower than it was in the United States. The same fact is attested by lord Liverpool, after a most careful and thorough examination of the subject. He estimated that, when, in 1714, the English guinea was made equivalent to 21 shillings in silver, gold was overvalued $1\frac{19}{31}$ per cent., and that the relative value of silver continued to increase during the greater part of the last century.†

* Wealth of Nations, Vol. I. Chap. V.

† Liverpool on Coins, p. 85. McCulloch's Com. Dict., Art. *Coins.*

If, in addition to the preceding high authorities, we consult the state of the market for the precious metals in the United States, we shall find further reason to infer that gold was, by the act of 1792, rather overrated than undervalued; for, during several years afterwards, silver regularly commanded a premium in the market, of from 3 to 5 per cent. The relative price of gold, however, began, about the beginning of the present century, to rise, and gradually advancing, in the course of some twenty years, that metal, instead of silver, at length commanded a premium in the market, correspondent to a like gradual rise in England.

It can furnish no argument against the correctness of the estimate here made of the relative value of gold in England, that it differs more than a half of 1 per cent. from that of France. The relative value of the precious metals is very various in different parts of Europe, and often shows, between neighboring countries, a greater difference than we have supposed between England and France. Thus, in 1821, it was, in Amsterdam 15.87 to 1, but in Hamburg 15 to 1; so at Madrid 16 to 1, and in Lisbon only 13.56 to 1. In Leghorn 14.65 to 1, and in Genoa 15.34 to 1.*

But, admitting that the relative value at the mint in England showed the real relative value, and that the mint regulations in the United States had adopted it, so that, instead of gold being here

* Kelly's Cambist, Vol. II., p. 147.

15 to 1, it had been 15.2 to 1, it would only have somewhat lessened the subsequent disparity between the mint price and the market price of gold. It would merely have delayed, not prevented, the banishment of our gold coins, that actually took place. The eagle would have been then undervalued about 13 cents less than it was, but it gradually rose up to be worth $10.66½, (its present price by law, if of full weight; *) and before it had risen to half that value, it had disappeared from circulation.

It thus appears, from what has actually taken place in the United States, that in the alteration which the relative value of gold and silver has experienced since 1792, it was not possible to have then fixed on any ratio, that would not have driven out of circulation one metal or the other; and if the value of gold to silver had been higher than it was, although it would have retarded the expulsion of gold, it would have greatly aggravated the mischief first experienced of a comparative scarcity of silver, and a consequent premium on that metal. It deserves to be noticed, that, when Mr. Jefferson, in 1784, proposed, in his new system of money and coinage, to rate the value of gold to silver as 15 to 1, Mr. Robert Morris, then public financier, objected to it, as rating gold higher than the market would justify; to which Mr. Jefferson acquiesced; but he inclined, he says, to "give a little more

* The act of 1834 makes the eagles of the first coinage receivable at 94.8 cents a dwt., or 24 grains, of standard gold; and there were 270 grains in an eagle.

than the market price for gold, because of its superior convenience in transportation."* And Mr. Hamilton, in his report on the subject of the mint, avowedly somewhat underrates silver, compared with its value in Europe, and justifies it on the ground of our greater vicinity to the Mexican mines.†

But, in opposition to these views, stress has been laid on the experience of France, which fixed the relative value of gold and silver in 1785, and whose mint and people had since been adequately supplied with both metals. On this fact, Mr. Gallatin mainly relies in his excellent essay on the currency, and that example, together with the weight deservedly attached to his opinions, probably decided congress on the adoption of both metals as standards of value, as he had recommended, notwithstanding several successive reports to congress, in which the policy of a single standard was earnestly and ably recommended.‡

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* Jefferson's Correspondence, Vol. I. p. 140.

† See Hamilton's report on the Mint Establishment, Jan., 1791.

‡ By Mr. Ingham, Secretary of the Treasury; by Mr. Campbell P. White, of New York; by Mr. John White, of Baltimore; to which we may add the testimony of an eminent practical financier in England, Mr. Alexander Baring, who, in an examination, in 1828, before a committee of the house of commons, of which he was himself a member, on being asked whether he thought that the proportions between gold and silver could be so adjusted, as to prevent one being preferred, so as almost to exclude the other, answered, that he thought it not possible; and he added, "The objections to the two metals is, that they are constantly varying; and it may be doubtful, whether the fact of that tendency does not make it more desirable, in the case of a double standard, to

The force of the example, however, is much weakened, when it is recollected that the currency of France is chiefly metallic, while ours is chiefly paper; and that a discrepancy between the market value and the mint value of the precious metals to one another, which would produce no serious mischief there, might drain us of the undervalued metal altogether. In that country, where large payments are mostly made in gold, and where, of course, the metal has an additional intrinsic value, as a convenient and labor-saving instrument of commerce, there is a counteraction to the error of the mint regulations which does not exist here, where the functions of a gold currency are generally performed by bank paper. Since gold has risen in value, compared with silver, throughout the world, it has, indeed, generally borne a premium in France; but that premium has not been sufficient to drive it out of circulation, in consequence of its superiority over silver for large payments, and their not having bank paper to supply its place.

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take something in the way of seignorage, or brassage; in other words, something for the price of manufacture more than you otherwise would, so as to counteract, a little, the tendency to melt the one or the other down. This allowance would tend, in some degree, to meet an increased expenditure at the mint; for the consequence of varying proportions between the two metals might increase the charges at the mint, by the occasional melting of the rejected metal. On the contrary, if you put something of the value of manufacture into the coin, then, even supposing your coin goes abroad by any altered proportion, or any state of exchange, it is an inducement to the persons abroad to keep it in the shape of coin."

The seignorage, too, which is charged on coinage in France, contributes to prevent the exportation or melting of the undervalued metal; for, though the additional value which coining gives to the metal is not wholly lost in a foreign country, it is very much diminished. On this account, an undervaluation of gold, compared with silver, which might not be sufficient, in France, to compensate for the loss on exporting or melting gold, might, in the United States, where there is no seignorage, drive it out of circulation.

If the price of gold continues to rise, it may be confidently predicted, that the gold currency will be driven out of circulation in France, unless the government either adopts the policy of a single standard, or makes a readjustment of the relative value of the two metals, which, besides the inconvenience of coins of different values under the same name, could not fail, in a country like France, whose currency is almost wholly metallic, greatly to disturb, for a time, private interests, as well as commercial operations.

We have, too, against the experience of France, the more apposite and more varied experience of England. In that country, before 1664, the relative value of gold and silver was regulated by the king's proclamation. From 1664 to 1717, silver alone was a legal tender, and gold left to find its value according to the fluctuations of the market. In 1717, the law made both metals a legal tender; and, in making a golden guinea equivalent to 21 silver shillings, it fixed the ratio of gold to silver

at 15.2 to 1. This law continued in force until 1816, when the government adopted the policy of a single standard, after a full examination of all the lights that experience and reasoning could throw upon it; only qualifying it so far as to make silver a legal tender to the amount of 40 shillings, and copper to the value of 12 pence.

Though there was some diversity of opinion on the subject, when the law passed, yet the measure seems to have obtained unanimous approbation since. Mr. Ricardo, who, being a practical banker, is entitled to peculiar respect on the subject of money, thus speaks of the inconveniences that had been experienced from the previous policy:

"It appears, then, that, whilst each of the two metals was equally a legal tender for debts of any amount, we were subject to a constant change in the principal standard measure of value. It would sometimes be gold, sometimes silver; depending entirely on the variations in the relative value of the two metals; and, at such times, the metal that was not the standard would be melted, and withdrawn from circulation, as its value would be greater in bullion than in coin. This was an inconvenience, which it was highly desirable should be remedied; but, so slow is the progress of improvement, that, though it had been unanswerably demonstrated by Mr. Locke, and had been noticed by all writers on the subject of money since his day, a better system was never adopted till the last session of parliament, when it was enacted,

that gold only should be a legal tender for any sum exceeding 40 shillings."*

With such strong countervailing testimony of the mischievous effects of making both metals standards of value, in a country agreeing with our own in the commercial habits of its people, and in the predominance of paper in its circulation, the past impunity of France, under circumstances so different, seems not entitled to much weight.

The precise effect of the acts of congress of 1834, concerning the coinage, will manifestly depend upon the character and extent of the alterations that may take place in the relative value of gold and silver. Should gold, as compared with silver, continue its gradual rise in the general market of the world, as it was rated here somewhat higher than its average price in other countries, it will be some time before the alteration would have any effect in driving gold out of circulation. But if, on the other hand, its relative value should fall, a very small change will begin to expel silver. It will then happen, as it happened for some years after 1792, that, whenever specie is to be transmitted to the United States, from a country in which both metals are readily obtained, it will be in gold; but, when it is to be exported, it will be in silver; by which process, the two metals will no longer exist in that proportion which is adapted to the wants and habits of the people; and there will be a relative scarcity of the metal which we

* Ricardo's Pol. Econ., Chap. XXV.

most use, and which cannot, like gold, find a convenient substitute in paper.

When either change may be brought about in so many ways, it is not easy to say which is the most probable. All the English writers on the subject of money concur, that silver was rising in value during the greater part of the last century. In the year 1717, the relative value of gold to silver, in the market, was not far from that fixed by law, — 15.2 to 1; yet, according to Stewart in 1760, and Adam Smith in 1774, it was, at those periods, less than 15 to 1. This opinion has been supposed to be contradicted by baron Humboldt, because he shows, from authentic data, that the quantity of silver furnished by the American mines gradually increased during that century; and their average annual product, for ten years, was at its maximum from 1801 to 1810. But this fact is not inconsistent with the relative rise of silver. During the same century, the product of gold was also greatly increased, by the working of the Brazil mines; and its proportional increase, compared with the product of the preceding century, was much greater than that of silver; so that, — although, when compared with other commodities, both metals diminished in value, by reason of their easier production and greater abundance, — when compared with one another, gold fell in value, by its greater relative increase. Thus, while the whole product of both metals, which, in the seventeenth century, had been 1540 millions of dollars, had increased, in the eighteenth century, to

2960 millions, — equal to 92 per cent., — silver had increased, during the said periods, from 1215 to 1850 millions, — 51 per cent., — and gold from 325 to 1110 millions, — 241 per cent.*

But, however silver may have risen in value for the first three fourths of the eighteenth century, yet, after that time, when the discovery and working of the great Valenciana mine had so greatly increased the supply of that metal, its relative (as well as its absolute) value began to fall, and that of gold to rise; and the current, thus turned, has continued to set in the same direction to the present time. Other circumstances have, probably, concurred to increase the relative value of gold. In the great increase of wealth which has taken place in the civilized world in the last half century, the use of gold for ornaments and utensils has had a greater proportional increase than silver.† As, from the same cause, the proportion of large payments would be greater, gold would, also, have been proportionally more used for coin, if the increase of paper money had not more than compensated this additional demand. Something, too, is to be ascribed to the smaller amount of silver that has been sent, of late years, to China.

Our anticipations of the future relative value of the two metals will depend upon our estimate of the preceding causes. If the relative rise of gold has been mainly owing to the increased supply of

* See Appendix, Note 5.

† Jacob on the Precious Metals, 370.

silver, that cause has ceased, since the rise and continuance of the domestic troubles in Spanish America. There is no longer an over proportion of silver extracted from the mines; but that of gold is, at present, slightly on the increase. But, so far as the alteration of relative price was owing to the greater consumption of gold, that cause is likely to continue. This effect, however, may be counteracted, or more than counteracted, by the renewed demand for silver for the China trade. In any event, it is scarcely to be expected, that, contrary to past experience, the several causes that influence the supply or demand of either metal, and, consequently, their relative value, will so counteract each other, that, in thirty or forty years, and, probably, much less, that relative value will not change; and when it does, we may find, that, in our mint regulations, we have adopted the worst features both of the British and the French system of coinage; and that the mischief of making, like the French, both metals legal measures of value, has been aggravated by making, like the British, our coinage gratuitous.

CHAPTER XVII.

SUPPOSING A SINGLE STANDARD OF VALUE, — SHOULD IT BE SILVER OR GOLD?

If only one of the metals be made a tender, some have been in favor of one metal, and some of another; and others, again, have deemed the question unimportant.

There seem to be two reasons for giving a preference to one metal over the other. The first is, that the metal which, by the common usage of a country, has been the ordinary measure of value, and which is coined into the common money of account, is, for that reason, to be preferred. Of this character is the dollar in the United States. It is not only the money in which accounts are generally kept, but the value of gold coins, like that of all other commodities, is stated in dollars, to convey a precise idea of their value; while that of a dollar seems to require to be compared with nothing else. This distinction is, indeed, nominal, and the difference imaginary; but it seems better to conform even to fancied distinctions, when to do so requires no concession of any thing useful or important.

The second reason is of more weight. This is, the greater steadiness of value that one metal has over the other; for the changes to which the metals, in common with every thing else, are exposed,

must affect the relative interests of creditors and debtors, in all contracts to be executed at a distant day, or enduring for a long term; and, consequently, the metal least liable to change will do the least injustice.

On this account, some have thought that gold ought to be preferred, because, they say, it approaches more nearly to uniformity, all over the world, than silver, and it has been less affected by the discovery of America; silver being supposed to have been reduced in value in the proportion of 4 to 1, while gold has been reduced only as 3 to 1.

But it does not follow, that, because the American mines have less affected the price of gold than that of silver, and that the former has been hitherto less changed in value, it will hereafter continue to be so. The greater relative abundance of silver, which made the fall of that metal greater than that of gold, has long since produced its effect; and the proportional price of the two metals, in the market, has been adjusted to it. Unless, then, some new disturbing cause arise, to vary the supply or the demand of either metal from what it is at present, their relative values will continue as they now are. And, though nothing but time can enable us to say, which of these metals may hereafter experience the greatest change of value, there seem to be some reasons for expecting that it will be gold. There is, in the first place, so much less of it than of silver, that a change in the quantity produced, which would not be perceived in silver, might sensibly alter the relative value of gold to other commodities. As the principal mines of the

two metals (those of America) are estimated to produce about 46 times as much silver as gold, an addition or diminution of gold, to any given extent, would produce as much effect on their relative value as would be produced by 45 times that amount of silver; and fluctuations, both of supply and demand, sufficient to affect the value of the commodity, seem somewhat more probable in the article that is scantily, rather than that which is abundantly, supplied; in the same way, that the price of game varies more than that of butcher's meat, and of rare and delicate vegetables more than of those that are used as bread. We have, also, a reason to expect an alteration in the supply, from the indications of gold, which have been given in the United States. Should this branch of the mining business settle down into a regular and steady employment of capital and labor, (of which there are some symptoms,) the quantity of gold which might be thereby added to that now in the world, would, in a few years, certainly have an effect on its price. On these accounts, it seems, that, though silver, by the discovery of America, has changed in value more than gold, it is hereafter likely to change less.

In the second place, for the same reason that gold approaches nearer to uniformity of value, in different parts of the world, it is more liable to temporary changes in the same place. It is much more sensitive to alterations, in the exchange, than silver is; and a rise in the exchange, which would have no effect on silver, would cause an exporta-

tion of gold, supposing that the laws had not given it a value different from the market value.

Further reasons may be found, for preferring silver as a legal tender, in the following circumstances: — Gold is more likely to be counterfeited, and, on that account, more often requires to be assayed; is more apt to be filed, and made lighter, and, therefore, must generally be weighed; and, lastly, gold is more easily substituted by bank notes than silver; and, where they are issued of a low denomination, they may almost drive gold out of circulation, and thus enhance the difficulty, with debtors, of making payment, according to the strict requisition of law.

On these accounts, silver seems the preferable metal to make a legal tender; though the reasons for preferring it may not be of sufficient weight to justify a change in the law where gold, as in England, is already the legal tender, and the received standard of value.

It may, however, be remarked, that this question, as well as that of a single or double standard, would lose all its importance, so far as concerns express contracts, if the parties would always agree on the metal or coin in which they were to be paid, and the law permitted either party to enforce the agreement. In this way, a contract to pay $1000 may be discharged in eagles, and a contract in eagles, in like manner, be discharged in dollars, if the parties could agree on the amount that was equivalent; and, if they could not, the terms of the contract would preclude all grounds of dispute, and all chance of injustice.

CHAPTER XVIII.

HOW FAR IS MONEY DISTINGUISHABLE FROM THE OTHER CAPITAL OF A COUNTRY?

ADAM SMITH considers that money partakes more of the character of fixed than of circulating capital, as, contrary to all the other kinds of circulating capital, it constitutes no part of the revenue of the society. He assimilates it, therefore, in its functions, to those machines and instruments which facilitate and increase production; money performing nearly the same office in distributing other commodities, that those machines do in producing them.

In consequence of its thus being a mere instrument of distribution, though a highly useful one, there is this difference between it and other commodities. While its increase or diminution seems to have the peculiar property of lowering or raising the value of every thing else, the *intrinsic* value of other commodities is indeed less affected by such alterations of the quantities of the precious metals, than by the increase or diminution of any other species of circulating capital. Thus, if the quantity of the precious metals should be quadrupled throughout the world, while such increase would raise the nominal prices of all other commodities

to four times what they previously were, yet, as these commodities would remain in the same quantities as before, their real value would be unchanged, and there would be no addition to the wealth of the world.* In like manner, if those metals were to be greatly diminished, though the diminution would proportionally raise their value, it would leave the value of every thing else unaltered. But if the quantity of bread, or meat, or cloth, were doubled, though the price would be reduced one half, or near it, every thing else would be somewhat raised in value, by their then exchanging for double the quantity of those useful commodities. It is, in short, but a *nominal* difference in the value of any commodity, whether it will universally exchange for an ounce, or half ounce, of silver or gold; but it is a *real* difference, whether it exchange for a greater or less quantity of any other commodity.

There seems, also, to be a difference between money and other circulating capital, as to its profits. In general, the mere profits of both, apart from the risk and trouble attending any particular employment of them, must be the same, seeing that they are readily convertible into each other. But, by reason of the quality possessed by money, of being demandable by all creditors, and, consequently, of being required by all debtors, the profits

* In this, gold and silver are regarded only as performing the functions of money; but, like any other commodity, an increase of their quantity will add to the wealth of the world, so far as they are used for other purposes than money.

of money, that is, its interest, may exceed the ordinary profits of other capital. This happens when there is an unusual amount of debt in the country, in consequence of overtrading, and excessive speculation. The extraordinary demand for money to meet previous engagements, by the increased competition of borrowers, necessarily raises the market rate of interest.

Though this increase of interest is most likely to take place when the amount of money in circulation is comparatively small, that is, less than it ordinarily is, yet it may also take place when it is comparatively large. It is only necessary that the demand for money should be great in proportion to the supply, and this will be the case, when the circulation has been increased, if the indebtedness of the country has been yet more enlarged than the circulation. It may thus happen, that when money has become depreciated by the over issues of the banks, if, by reason of the overtrading and speculation that have taken place, the amount of debt contracted has been also very great, there will also be a proportional demand for money to discharge it, and the rate of interest will be raised accordingly. This was the case in New York, in the year 1836. The high prices of every thing as well as the official statements of the condition of the banks, showed that the currency had experienced an unprecedented distention; yet, by reason of the extraordinary length to which speculation had been pushed in town lots, in wild lands, and in every species of enterprise, the debts due to the banks,

and to others, as well as for further speculations, occasioned a demand for money so far beyond the supply, that the market rate of interest rose to an unexampled height, so that money was attracted to New York from all the neighboring states, for the purpose of being lent out.*

It may be asked why such high prices of property did not produce a proportional increase of sales, and thus make the supply of spare capital adequate to the demand? The owners of property had the strongest inducements to convert it into money, when they could obtain high prices, and then make a profitable investment of the proceeds. The answer is, that, as to the debtors and speculators, they had not always property to sell; and as to those who did possess it, though some did make the conversion and profit by the state of the money market, others were prevented from doing it, from the belief, that though property was high, it would be yet higher. Even many of the debtors prefer-

* These facts of the enlarged circulation of the banks, the advanced prices of property, the unusual demand for money in the large cities, and the consequent high market rate of interest, are all noticed by the bank commissioners of New York, in their annual report of January, 1837; and they seem to consider the concurrence of the high prices of property, indicating a redundancy of money, with a high market rate of interest, as an anomalous fact, and inconsistent with the received doctrines of political economy. It is, however, in strict conformity with the principles of that science, that the market price of an article should rise, notwithstanding its increased supply, if the increased demand for it had been yet greater. Though money, as compared with other articles, had depreciated, yet, if increased as it was in quantity, there was not enough to satisfy the demands of debtors, and for further speculation, it would command a higher rate of interest.

red borrowing money at a high interest, rather than selling property while it was rising in value, just as a prudent man would prefer paying a high rent for a house, for a short time, to buying it at an exorbitant price. He may lose more thousands in the last case, than he would hundreds in the other.

PART II.

ON CREDIT AND BANKS.

CHAPTER I.

THE NATURE AND USES OF CREDIT.

HAVING, in the preceding pages, considered the subject of money, let us now consider that of its substitute, credit. This is the transfer of something valuable to another, whether money, goods, or services, in the confidence that he will be both willing, and able, at a future day, to pay its equivalent. Credit, indeed, to a certain extent, must have existed, before the invention of money. In the earliest stages of society, it must have sometimes happened that one man would seek and obtain of another, some article which that other could spare, on the promise of paying an equivalent for it at a future time.

But its use gradually extends with the progress of civilization; and in the same way as money was found to be a convenient substitute for barter, credit has been found to be a convenient substitute

for money. Both changes grow out of the altered circumstances of society; both are contrivances for saving the time and labor of its members, by way of increasing their productive powers, and augmenting their wealth. Let us take a glance at the various occasions in which credit is sought by one party, and given by another.

One of the first, and most obvious of these occasions, is when an individual has a sudden call for money with which he is then unprovided, and when the urgency of his wants will not permit him to wait until he receives his wonted income. In that case, he naturally seeks to borrow of one who has money unemployed, and who will be willing to lend for a remuneration, to compensate him for the risk he may run of losing his money, and for the accommodation he affords to the borrower. The terms of the loan will be regulated by the wealth or ability of the borrower, his character for intregrity and punctuality, the scarcity of money, and other circumstances.

A large portion of the community, too, find it convenient to purchase many of the articles of their ordinary consumption on credit, rather than for cash; sometimes, because there may be additional trouble in making payment for very small sums, and at others, because they have not always the money. As a great many earn barely enough for the support of themselves and their families, and must sometimes give credit, they must also ask it. Those who have debts due to them can, on the faith of these debts, obtain credit; and some,

who have neither money, goods, nor debts, occasionally obtain it, if they have any reasonable expectation of acquiring the means of payment in a short time; some additional profit to the creditor, in such cases, compensating his risk of loss.

In these, and a thousand other ways, credit affords accommodation to men in their mutual dealings. Its benefits extend to all classes; but while it is merely convenient to the rich, it is indispensable to the poor, and the intermediate classes. Without it, indeed, all contracts respecting the future would be at an end, from that of the landlord and tenant for rent, to that of the day-laborer and his employer for wages. In this last very numerous description of contracts, credit is always given by the employer, if the money is advanced, and by the laborer, if it is not.

But credit, besides being thus useful in keeping the framework of society together, and facilitating its operations, is a powerful instrument of production. Thus, a skilful artificer is idle for want of the raw materials to carry on his trade. By either purchasing these on a credit, or by borrowing the money to purchase them, he can so increase the value of the materials by his labor, as to repay the borrowed capital with a profit, and earn liberal wages for himself. Credit thus converts an idle consumer into an active producer. Another is engaged in some useful branch of industry — iron-works, or a coal-pit, for example — and he finds that, by an addition to his capital of one half, he can double the quantity of iron or coal that he

extracts from the mine. Not having the money, he is induced to borrow it. In this case, as in the other, the additional gains have been created by credit.

The same thing may be said of any profitable enterprise, whether in agriculture, commerce, or manufactures. If he who engages in it has not capital of his own, and, consequently, carries it into execution with borrowed money, then all the profit beyond what will repay the loan and its interest, seems fairly the production of credit. Credit not only gives new employment to productive industry, it makes that employment more unremitting. By its means, the manufacturer is able to dispose of his fabrics, as soon as they are made, to a responsible purchaser, without being compelled to wait until he meets with one who is able to pay for them; and he, in turn, is able, by credit, if he requires it, to make a further purchase of materials.

But it may be said, that money would perform all these useful purposes as well as credit, and in general perform them better, as it would avoid the risks and uncertainty which must always accompany credit, and would at least save the trouble and expense of keeping accounts. One of the advantages of money we have seen to be its saving the necessity of credit. All this is true in general, and in most cases it would be better for both parties to buy and sell for cash, instead of credit, if these were equally attainable. But it must be recollected they are not; that money is a commodity which is purchased by labor; that it is a costly instrument

of commerce; and that it would be far more so, if it were made sufficient for all the purchases that take place in a wealthy and civilized community. The quantity could not be so increased, but at the expense of some other important want. Although, then, credit may not be altogether as convenient as money, yet, as it costs little, and is substituted for an expensive instrument, the saving that is thus made may much more than compensate for the inferiority of the substitute.

Besides, in some cases, credit may be more convenient than cash, as where purchases are very frequent and small, or where, when large, there are mutual debts and credits. There may be a saving of time and trouble, in settling with one's family grocer, butcher, or baker, once a month, rather than to provide the change for every trifling purchase. So, where there are mutual dealings to a large amount, it might happen that nine tenths of the labor of making payments would be saved without any attendant inconvenience, when the writing of half a dozen words supplies the place of transporting perhaps a cart-load of silver. Without a credit, moreover, the operations of foreign and distant commerce, that are now so gainful, would be comparatively insignificant. Every merchant, no longer trusting to agents and factors, would be obliged to attend his merchandise in person, and, of course, could not engage in more than one adventure at once. Receiving money for all he sold, and paying it for all he bought, his operations would be limited by the actual amount of capital

he owned; and he could derive none of the aid now afforded in distant traffic, from bills of exchange, by which the use of the precious metals is so much diminished.

Credit, therefore, economizes the use of money, which, as we have seen, is a costly part of the machinery of commerce. It quickens industry, by enabling the whole of the productive classes to get their products sooner to market, and to continue their operations without intermission. In the small traffic of society, it saves time; and, by enabling any one to anticipate his revenue and his profits, it favors enterprise, and is, to the unproductive classes, a great convenience in the multifarious emergencies which life is ever presenting. By it, the inactive capital of one man is a source of profit and gain to himself and another, whereby the sum of national wealth is augmented; and, lastly, as credit is in proportion to integrity, prudence, industry, and good faith, it is a constant encouragement to these virtues, especially in that class of the community where they are most useful. That it also has its abuses, cannot be denied. It sometimes leads to knavery and fraud, that had not otherwise been practised, and sometimes invites to increased expense. These, however, are exceptions, which bear a small proportion to the general character of the cases of credit.

Dr. Franklin, with his accustomed sagacity, saw the benefits it was likely to confer, when he directed, in his will, the proceeds of certain debts to be constantly employed, in lending money to

young tradesmen; for, though the fund proved unproductive, he showed what he considered to be its most useful direction.

Credit enters so largely into the dealings and concerns of every civilized community, that, if any large part of its operations were suddenly suspended, the whole machinery of society would be at a stand; and even those who had money would, for a time, not be able to exchange it for what they wanted. A considerable proportion of our foreign goods are purchased on a credit, by the importers. These extend a credit to the wholesale dealers in the large cities; who, in turn, credit the country merchants, and they their respective customers. If it was suspended in any one class of the series, it must be injuriously felt in all below it; and if suspended altogether, it might put a stop to more than half the commercial dealings of the community; that is to say, more than half their present wants, dependent on commerce, would be ungratified. Hence it is, that, when, from any cause, it is impaired in any one link of the chain, the effect is felt by all the others, in a general stagnation of business, and pecuniary difficulty. In general, what is called a scarcity of money, is nothing more than a deficiency of credit — an impaired state of mutual confidence.

The effect of such suspension, as has been mentioned, is not confined to those who receive credit, but also extends to those who give it. Thus, if the New York merchant is unable or unwilling to give credit to the country merchant, being, on that

account, able to sell less, he, of course, is required to buy less. He, consequently, has less occasion for credit in England, and may limit his purchases to what he can pay for in cash. The effect of this reduction of demand is, a redundancy of those commodities he had been accustomed to buy, and which can find vent only by a diminution of price. The same consequence would follow, if the country merchants, generally, refused credit to their customers. The effect is, in all cases, reciprocal; and the difference of effect, in the different cases, is according to the amount of credit they severally give. Thus, as the New York merchant commonly gives credit to a greater amount than the country merchant, the effect, both on those of whom he buys, and on those to whom he sells, is proportionally greater. In short, in this great stream of credit, which turns so many of the wheels of commerce, if the current is arrested in any part of its course, it immediately occasions a redundancy in all above, and a deficiency in all below; and these are the two great evils of commerce.

It would seem, that, notwithstanding the functions of credit are often the same as that of money, of which it is merely the substitute, there are so many occasions in which it is more convenient than money, and its uses so multiply with the extension of commerce and wealth, that its place can never be supplied by any increase of the circulating medium; and thus we find, that, the greater is the amount of circulation in a country, and the greater its dealings for cash, the greater,

also, are its dealings on credit. There is, for example, no country in which there is so much use made of credit as in England; and there is none in which the currency is so large for its population. But, large as is its amount of circulation, it is small, compared with its wealth; and it owes this economy of money to its more diffusive and more perfect system of credit.

CHAPTER II.

OF THE DIFFERENT KINDS OF CREDIT.

HAVING, in the preceding chapter, seen the utility of credit, let us now advert to the principal modes and forms in which it exhibits itself in commercial dealings.

1. The most simple and most common form of credit is, where goods are sold, or services rendered, on the faith of the personal character and responsibility of the party receiving the benefit, without any written acknowledgment of the debt. Most of the goods sold by country merchants, a large part of those sold in cities, and of the wares sold by their artificers, both in town and country, — such as clothes, hats, shoes, household furniture, &c., — are examples of a credit of this kind; and it varies, according to diversities of usage, species of trade, and the personal character of the parties, from a few weeks to a year, or more. As a part of what is thus sold on a credit is never paid for, a small addition to the price, in cash, must be made, to indemnify the seller for the risk of loss, and to afford him the average rate of profits. When we recollect how much more most shopkeepers and tradesmen sell on a credit than for cash, and how large a proportion of the circulating cash is used

for these purposes, we must be satisfied, that the whole amount of this class of credits, in the United States, must greatly exceed the amount of its currency; and that it may reach several hundred millions of dollars.

2. The next most common form of credits is, where the debtor gives to his creditor a written acknowledgment of the debt, accompanied with a promise to pay it on a given day. This writing not only facilitates the recovery of the money, in case the creditor should find it necessary or expedient to resort to the courts of justice to compel payment, but, by its formality, seems to impose a further obligation on the debtor, to make punctual payment. Some of these writings are of higher dignity than others; that is, they give greater privileges to the creditor, and subject the debtor to greater liabilities. Thus, *bonds*, which are papers under seal, are distinguished from *promissory notes*, by the English common law, and in all the states where that system prevails. By the laws of some of the states, bond creditors are entitled, on the decease of the debtor, without leaving personal assets, to be paid out of the landed property, in the hands of his heir or devisee; but this privilege is refused to creditors on promissory notes. In some of the states, too, when a deceased debtor's estate is insufficient to pay both these classes of debts, bond debts are entitled to the preference.

Whenever the debts of the first class are not paid at the time promised, or after the ordinary term of credit, they are often converted into credits of this class; and the creditor has a right to inter-

est from the day of payment of either bonds or promissory notes, both by law and usage.

By far the largest proportion of this class of credits is in promissory notes, especially in the mutual dealings of mercantile men. We may form some idea of their vast amount, when we find those which were discounted at the several banks in the United States, amounting, on the 1st of January, to $485,000,000, and on the 1st of January preceding, to 40,000,000 more. These discounts, moreover, constitute but a part, and, perhaps, not the largest part, of this description of credits.

Though promissory notes consist, originally, but of two parties, — the payer and the payee, — yet the latter can, in writing, transfer his interest to another, which is called an assignment; and such assignee will have the same rights as the original payee, either to receive the money, or to make a transfer of it; and so with every successive assignee.

3. *Bills of exchange* are a third species of credit, by which a man obtains money for a written order or authority to receive an equivalent sum, which he has in a distant place; and they are so called, because the two contracting parties agree to exchange the money of one country for money in another.

This species of credit consists of three original parties; as one, the drawer, requests another, the payer, or acceptor, to pay a sum of money to a third, the payee. Like the promissory note, it is also capable of being transferred from hand to hand by writing, which is called an endorsement;

and every one so transferring it is called an endorser; and the endorsee then makes a fourth party.

Bills of exchange are chiefly used by merchants, in foreign traffic, to save the expense and risk of transmitting the precious metals. Whenever two countries are connected by commerce, there will be mutual debts and credits between them, which are adjusted by bills of exchange, to the convenience of all parties. Thus, A, in New York, consigns cotton or tobacco to B, in Liverpool, to sell on his account; while C, in New York, is indebted to D, in London, for woollens and hardware. By means of a bill of exchange, which A draws upon B, and sells to C, who endorses it to D, A and D both receive the money respectively due to them in foreign countries; C remits the money he has engaged to pay in London; and, as to B, though it may seem the same thing, whether he pays the money he owes to one person or another, he is indirectly benefited by every facility which is afforded to his creditors, in obtaining their debts. But for this exchange of credits, B's debt to A must have been paid by the transmission of specie from Liverpool to New York, and C's debt to D, by a like transmission from New York to London.

Though, in general, the mutual debts between two countries tend to balance one another, yet, in the vicissitudes of commerce, they are, occasionally, very unequal. In that case, in the country most in debt, (supposing it, at the same time, able and

willing to pay its debts,) there will be more persons desirous of buying bills, than there will be persons able to sell them; and then bills will sell for a premium; inasmuch as it will be better, for persons who have remittances to make, to pay such premium, than to be at the risk and expense of remitting specie. So, on the other hand, if there are more persons wishing to sell bills than to buy them, they will sell at a discount; as the drawers would rather make some abatement from their money in a foreign country, than incur the expense of transporting it.

In this way, the price of bills of exchange fluctuates in the market, like any other commodity, according to the proportion between the supply and the demand; but they can never rise above, or fall below, the value of the money they are drawn for, and the charges (that is, the freight, insurance, and commission) of transporting it from the foreign country.

Though it is the commercial dealings between two countries, which most frequently determine the price of bills, or, as it is commonly termed, the rate of exchange, between them, yet, any thing else, which may occasion money to be sent from one country to another, has the same influence; as, money remitted to absentees, or sent abroad for the purchase of stock or land, or to pay foreign subsidies. The rate of exchange is therefore determined, not by the difference of the mutual debts between two countries, but by the difference of sums then payable; so that a debtor nation, if a

part of what it owes is not yet demandable, may have more money to receive than remit, and, consequently, more sellers of bills than buyers. In this way, the loans and credits which citizens of the United States obtained in 1836, and before, of the English banks, and other capitalists, while they swelled the amount of debt against America, contributed to keep down the price of bills on England.

As by far the largest portion of cash payments between distant countries is made by means of bills of exchange, and their price rises or falls, like that of merchandise, their fluctuations are watched with great interest by the mercantile community; and they are all estimated by a reference to a known standard, called the *par of exchange.* To determine what it is with exactness, is often a question of nicety and difficulty, from the different monetary systems that prevail in different countries. The term, therefore, requires some explanation.

The par of exchange between two countries is that quantity of the money of the one, which will be precisely equal to a given quantity of the money of the other. Thus, the number of dollars which are equal to £100 sterling, or the number of pounds sterling which are equal to $100, is the par between Great Britain and the United States.

The *intrinsic par* — that which is always understood when no other is specially mentioned — is, when stated quantities of the money of two countries contain equal quantities of the same metal, and of equal fineness. This par is easily ascertained.

But the *commercial*, or *current*, or *temporary* par compares them according to weight, fineness, and *market price*. This last may be affected by the mint regulations of a country, by the wear of the coin, and other circumstances. Two sums of money are at par in the first sense, when they contain the same quantity of fine gold or silver; but they are at par in the last sense, *commercially*, when they will purchase equal quantities.*

When two countries adopt different ratios for the value of gold to silver, the intrinsic par will be one thing, when it is estimated in silver, and another, when it is estimated in gold. Thus, if the par between France and the United States be computed in silver, $100 will be equal to 534.53 francs; but if in gold, then, as 10 eagles (equal to $100) contain the same quantity of fine gold as $12\frac{9\,7\,2}{1\,0\,0\,0}$ French 40 franc pieces, they are equal only to 518.88 francs. So, if our silver coins be compared with those of England, £100 sterling will contain no more fine silver than is contained in $434.89; but if the gold coins be compared, then £100 sterling is, as we have seen it contains as much as $48\frac{6\,6\,5}{1\,0\,0\,0}$ eagles, equal to $486.65. On this account, in countries where both metals are a legal tender, a medium between the two is considered, by some, the *true par*.

In estimating the fluctuations of exchange, the money of each country is commonly made the fixed standard, and the alterations expressed in

* Kelly's Cambist, Vol. II., 13.

the foreign money. But this is not always the case; for in the United States, in stating the rate of exchange with England, the money of that country is made the standard, and the fluctuations are expressed in dollars or pounds of current money. But in estimating the exchange with France, Holland, and other parts of Europe, the dollar is made the standard, and the rise or fall of exchange is expressed in French livres, Dutch guilders, &c.

The money which is thus, by usage, made the standard, is technically called the *certain*, and that which measures the fluctuations, the *uncertain;* though the causes and the effects of the fluctuation belong as much to one as the other.

When a given amount of money, in one country, will purchase a larger amount in another, exchange is said to be favorable to the first, and unfavorable to the last. Thus, supposing, when exchange with England is at par, £100 sterling is equal to $486.65, and it should be worth, in the market, $490, exchange would be favorable to England, and unfavorable to the United States. These terms have been used, because the state of exchange, when not at par, is considered to indicate which nation is creditor, and which is debtor. It follows, that a favorable state of exchange is that which is advantageous to the remitter or buyer of bills, and proportionally injurious to the seller; and this rule holds, whether the money of the country be the *certain* or the *uncertain;* but, in the first case, exchange will be favorable, when it is above par, and in the last, when it is below par,

Thus, exchange with Paris will be favorable to the United States, when a dollar will exchange for *more* than the par of 5.34 livres; and with London, when £100 sterling is purchased with less than the par of $486.65.*

Besides the real par of exchange, which compares the actual values of the money of different countries, there is sometimes a *nominal* par; that is, one that prevails by usage, and which does not compare equal values. Such is the par that is still referred to in the United States, in stating the exchange with England. It assumes a dollar to be equal to four shillings and six pence sterling, agreeably to the value of that coin when a general assay of foreign coins was made in England, by Sir Isaac Newton; and on this basis all the states have compared the pound of their respective currencies with the pound sterling, and have estimated £100 sterling as equal to $444.44. But the quantity of fine gold contained in £100 sterling is equal to that contained in $48\frac{65}{100}$ American eagles; which are equivalent to $486.65; so that the real intrinsic par is 9½ per cent. above the customary and nominal par.

Whenever exchange is unfavorable, to the same extent the export trade is encouraged, and that of

* By the act of 1834, the gold eagle of the United States was required to contain 232 grains of fine gold in 258 grains of standard; but, by the subsequent act of 1837, the eagle is still required to weigh 258 grains of standard gold, but to contain nine tenths of fine gold; which slightly alters the law of 1834. The precise quantity of fine gold in an eagle should now be $232\frac{1}{2}$ grains; and all the estimates in this work so suppose it, in conformity with the law of 1837.

imports discouraged. When a given amount of money, in a foreign country, is worth a larger amount in this, the exporting merchant gains this difference by placing funds abroad, and can afford to give a proportionally higher price for articles of export. The importing merchant, however, must experience a correspondent disadvantage, in paying for foreign goods. Whenever, therefore, exchange with England is above the real par in the United States, the excess is a bounty on our exports to that country, and an additional tax or charge on our imports from it; but this difference, it must be remembered, can never exceed the expense of transmitting the precious metals.

But, as the debts and credits of a nation, like those of an individual, must, in time, balance each other, exchange cannot be generally and permanently against any country; and as the equilibrium can be restored only by increasing exports, or diminishing imports, when a nation has bought more than it has sold, or by the contrary course, when its sales exceed its purchases, the influence of exchange on the export and import trade contributes to accelerate the restorative process.

Although the whole sum of a nation's imports and exports must, on an average of years, be equal, yet this is not necessarily the case, in its trade with any particular country; and with such, of course, exchange may be generally favorable or unfavorable. But, in such cases, the average deviation from the par of exchange will be balanced by an opposite deviation with some other country.

Bills of exchange are so very convenient, not only to merchants, but also to travellers, and all persons having occasion to send money abroad, and they are of so much importance to the parties confiding in them, that the codes of all civilized nations have attached to them peculiar privileges, which are enforced with great rigor. The several duties of the acceptor, holder, and endorser, are prescribed with great exactness, and make copious heads in commercial jurisprudence.*

As a large number of our merchants are engaged, almost exclusively, either in the export or import trade, and as, when they engage in both branches, they often employ different agents, a considerable proportion, both of the imports and exports, are paid for by means of bills. These are mostly negociated in the United States; and on much of the cotton and tobacco, bills are drawn, by the shipper, on the consignee, and accepted by him, before he has made sale of them. In the same way that the mutual debts between different countries are cancelled by foreign bills of exchange, so are those between different parts of the same country, by inland bills of exchange.

4. *Evidences of the public debt, or certificates of stock.* Governments, like individuals, sometimes find it expedient to anticipate their revenues by means of their credit. It is a most valuable

* For all the diversities on the subject of money and exchange, whether from law or usage, the reader is referred to Kelly's Cambist, a work which has no superior for clearness, accuracy, and precision.

resource, in great national emergencies, whether for the defence or improvement of the state; and if used, as it ought to be, only on those occasions in which succeeding generations will share the benefit with the present, it is no less just and wise than efficacious. The great Erie canal of New York had, probably, not been even now constructed, had not the state contracted a debt for that purpose. Pennsylvania has obtained a similar benefit by similar means. The purchase of Louisiana could scarcely have been effected without a public loan: the American revolution certainly could not. This power, which governments have, of raising money, on the credit of future taxes, has been greatly abused. It has not seldom been employed to waste the national capital on objects in which neither the existing generation, nor their posterity, had a real interest. But, so long as the money is borrowed in the country, however uselessly or wastefully it may have been expended, it never can ruin the nation. As the money was made before it was spent, by those who lent it to the government, it may be used to prevent the nation from being richer, rather than to make it actually poorer.

Those who lend to the government receive certificates of their debt, which are called *stock*, which bear an annual interest, and are transferable from hand to hand. Where a government is in good credit, it can commonly borrow on better terms than individuals; and thus it spends that capital which finds the least profitable employment. A

large part of the English debt now yields to the holder but 3 per cent. per annum; though the government, when the debt was originally contracted, paid a much higher rate for most of it, by making itself a debtor for a larger amount than it actually received. This class of credits, in England, amounts to more than 13 times* the whole currency of Great Britain; and it is an annual charge of $\frac{1}{12}$ on the land and industry.

Except the treasury notes, which have lately been issued by the United States, they now have no public debt.

5. *Bank bills.* These are the promissory notes issued by banks, in exchange for the promissory notes of individuals, for bills of exchange, or specie. They are distinguished from the second species of credits in this, that they are not, like the former, payable to a particular person, but to the *bearer*, or holder of them. By reason of this circumstance, which makes endorsement unnecessary, and the confidence every one has, that he can convert them into cash whenever he chooses, and from the supposed wealth and punctuality of the banker or corporation which issued them, they have acquired the still more important distinction of performing the functions of money; and, the better to fit them for this important office, they are printed from plates skilfully engraved, as well as signed and countersigned; by which the difficulty of

* Estimating the currency at 60,000,000 sterling, and the debt at 787,000,000.

counterfeiting them is increased; and they are in sums convenient for circulation; as in fives, tens, twenties, fifties, and yet larger multiples of the common money of account. In this acquired character of money, they have been found so much more convenient than the precious metals, that, in some countries, they constitute almost the entire currency; and, in this view, may be regarded as one of the most important inventions of commerce.

But, from the facility which this preference for bank paper gives to the banks to extend their issues, and the temptation they are under so to extend them, for the sake of increasing their gains, this species of credit has been found liable to great abuses, which have given rise to much regulation by the legislature. It has, however, been doubted, whether the laws, in aiming to prevent some evils, have not, sometimes, created others still greater. The policy of several of these regulations is yet contested; and they involve some of the most unsettled problems in political economy. They will be fully noticed in the succeeding chapters.

The amount of the notes issued by the banks of the United States, on the 1st of January last, was 116,000,000.* To this may be added their notes payable to order, and their drafts on each other; which are a sort of inland bills of exchange, by which the public is further accommodated to a large amount.

* Mr. Woodbury's Bank Report of June 7, 1838.

Though the amount of bank paper is far less than that of private promissory notes, or even of bills of exchange, yet, when we recollect how many payments each bank note makes in a year, it can scarcely be doubted, that, in the whole mass, they are the instruments of more exchanges, and discharge debts to a larger amount, than are contracted by the promissory notes of individuals.

Besides the species of credit that have been mentioned, there are others, in which property is pledged to the creditor, as security for the debt. When real estate is thus pledged, it is called a mortgage; and when goods, it is called a pawn. But these transactions, though assuming the form of credits, are, in their essential features, sales. They deliver an equivalent for the money or property received; but the title is not complete, until the debtor has failed to make payment at the time stipulated. The nominal creditor then gives no confidence, and incurs no risk; and the debtor parts with as much value as he gets, and commonly more.

CHAPTER III.

ON BANKS. — THE DIFFERENT KINDS OF BANKS OF DEPOSIT.

BANKS are of two kinds: banks of deposit, and banks of circulation. The first are so called, because they issue no paper but upon gold and silver deposited with them for safe keeping. They are comparatively rare; but, as they are thought, by some, the preferable species of banks, they deserve a particular notice.

The first bank of this kind was the bank of Venice, which was established in the twelfth century, during the most flourishing era of that celebrated aristocracy. Its origin is not accurately known; but it is said, by the historians of Venice, that, in 1171, the republic, being involved in war, levied a forced loan from its wealthier citizens, at an interest of 4 per cent.; and that the lenders appointed a number of their body to receive and disburse the interest; and that this committee finally became the bank of Venice; but when, or in what way, is lost in the obscurity of time.

In the absence of authentic records, Storch suggests, in the way of rational conjecture, that, as the interest on the loan was always punctually paid, every credit entered on the books of the as-

sociated lenders might be regarded as a productive capital; and that, therefore, such entries, or evidences of the right to receive the annual interest, might be frequently transferred from hand to hand. This practice would, eventually, show the whole body of lenders how easy and simple it was to settle their mutual claims by transfers on these books; and when they, at length, came to perceive the advantages that commerce might derive from this method of settling accounts, bank money was invented.*

In whatever way it originated, says the same writer, this committee of lenders (*chambre des prêteurs*) became a bank of deposit; and its operations consisted in effecting the payment of bills of exchange, and of contracts between individuals. Though it was without capital, its bank credits commanded a premium in current money. It continued in existence until 1797, when the invasion of the French, in overthrowing the government, extinguished the debt of the state, and annihilated the bank. In 1423, it yielded a revenue to the state of near a million of dollars — an immense sum, in those days.

The bank of Amsterdam, the next that was established in Europe, was also a bank of deposit. It was instituted in 1609, by the merchants of Amsterdam, for commercial purposes, immediately after the independence of Holland was established by its pacification with Spain. Amsterdam was,

* Storch, Pol. Econ., Vol. IV., p. 95.

at that time, a place of great trade, which brought to it the coins of all countries; and as these were often clipped and worn, the real value of the current money was about 9 per cent. below that of coins just issued from the mint. The consequence was, that these last were immediately melted up or exported, so that the merchants found it impracticable to pay the bills of exchange drawn on them in good coin, and the value of those bills was proportionally depreciated in the market.

To remedy the evil, a bank was established under the guarantee of the city, and modelled after that of Venice. The plan of the bank was to receive the light and worn money, then in circulation, at its intrinsic value, or near it, and to give a credit on its books for such value; which credit was transferable by entry in the book of transfer; and, to induce the merchants to make deposits, it was enacted that all foreign bills of exchange, of 600 guilders and upwards, should be paid in bank money.

Under the operation of this enactment, and together with the inconvenience felt from a disordered currency, deposits were soon made, at first in ducatoons, which were Spanish coins then circulating in Amsterdam, and which the bank made its standard; receiving them, however, at the value of 3 guilders or florins, which was 5 per cent. less than their current value, though probably little if any thing short of their real value. Other foreign coins were afterwards received in like manner, subject to a like deduction, and entitling the de-

positor, as in the case of ducatoons, to a credit on the books of the bank; which credit, as it performed all the functions of currency, was called *bank money.*

Upon all these deposits, whether of current or foreign coin, the bank not only gave a credit in its books, but it also gave to the depositor a receipt or *recepipe,* which authorized the bearer to withdraw, at any time within six months, the same amount of the particular coins deposited, upon the conditions of his transferring to the bank as much bank money as the depositor had received, and on paying for the keeping of the specie, one fourth per cent. if in silver, and one half if in gold.

This bank money, as the bank credits were called, seems from the first to have commanded an agio or premium over the current money. This arose partly from the fact, that the bank had received it only at about its intrinsic value, (which was about 95 per cent. of its current value,) and partly from the greater safety of the money in the custody of the bank, and its more easy transfer. By reason of these advantages the agio was commonly 5 per cent. On this account, the holder of bank money had no inducement to reconvert his bank credit into coin, especially as he could not do so without paying for its safe keeping. The consequence was, that nearly all the money first deposited became the property of the bank, at the price at which it had been received, that is, about 95 per cent. of its current value.

It may, however, be presumed, that, after most

of the Amsterdam merchants had obtained bank credits commensurate with their business, and the amount of bank money became equal to the wants of the city, the deposits did not continue to increase. As they took the place of currency, and, by the aid of bank transfers, were made to perform its functions, they could not much exceed the amount of money that would have circulated without them; and being, in many respects, so much better than the money it superseded, it would not be less.

But the bank did not confine its operations to coin. As in the extensive commerce then carried on at Amsterdam, a large amount of gold and silver bullion was brought there, the bank, to give encouragement to a branch of trade then thought particularly advantageous, received bullion on the same terms as coin; that is to say, it gave a credit on its books for 95 per cent. of its mint price, together with a receipt, by which the holder might receive it back, if applied for within six months, on his transferring his bank money, and paying for the safe keeping of the bullion.

But, as the market price of bullion was commonly yet higher than its mint price — the former being influenced by the deterioration of the current coin, and the latter being fixed by law — the receipts given by the bank for bullion, unlike its receipts for coin, could generally be sold at an advance in the market, either to those who wanted them for the purpose of drawing bullion from the bank, or to those who bought them with the inten-

tion of holding them, until they were so wanted. These receipts, therefore, were rarely suffered to run out of date, but if not used before the expiration of six months to obtain bullion, they were renewed.

Bullion was thus continually flowing into and out of the bank; it being most freely deposited when the market price was low, and most frequently withdrawn when the price rose; but the average amount at all times in the bank was very great, and many times exceeded, it was believed, the sum that had been originally deposited in coin, for the purpose of furnishing the merchants of Amsterdam with money of a higher and more unvarying standard. The high credit of the bank made it the great negotiator of exchange for all the principal commercial cities of Europe, from which it was continually attracting gold and silver.

Though the bank money and the receipts which were granted by the bank on each deposit of bullion soon separated and fell into different hands, — the bank money being used as currency, and the receipt as an article of speculation, — yet, as every one who wished to draw bullion from the bank must provide himself with both bank money and a receipt, and the value of the two united made up the market value of the bullion, there was a conflict of interests between the owners of bank money and the holders of receipts, and each class of bank creditors was interested in depreciating the claims of the other. Thus, the cheaper were the receipts, the better were the terms on which the owner of bank money could obtain bullion; or, if

he wished to sell his bank money, the higher would be its agio or premium in the market. On the other hand, the lower the holder of a receipt could depress the agio of bank money, the less would be the cost of bullion to him, or his assignee, and, ofcourse, the more valuable his receipt.

To prevent the fluctuation in the value of bank money, and the stock-jobbing to which these rival interests gave rise, the bank had agents, or brokers, in its employ, who were ready at all times to sell bank money whenever the agio rose to 5 per cent., and to buy when it fell to 4 per cent., which was not only a remedy for the mischiefs previously experienced, but a further source of profit to the bank.

This institution, which had been established for the purpose of correcting the evils of a vicious currency and an unfavorable exchange, proved a considerable source of revenue to the city of Amsterdam, as well as of extension to its commerce. Its gains were from the following sources, to wit: 1. Its charge for safe keeping on all the money or bullion it paid out. 2. The profits of such receipts as had been permitted to expire; which profits, being the difference between the money deposited and the bank credit allowed on it, we have seen nominally amounted to about 5 per cent. 3. The fees charged on every account opened, and every transfer. 4. Penalties for overdrawing, &c. 5. Its profits by buying and selling bank money.

The bank professed to lend out no part of the money it had received on deposit, and, of course,

to have a guilder in gold or silver for every guilder credited on its books. Such was the guarantee of the city of Amsterdam, and such was implicitly believed to be the fact by its citizens. They remembered that, when, in 1672, Louis XIV. invaded Holland, most individuals demanded their deposits, and the bank paid them with so little hesitation, as to inspire general confidence in the fidelity with which its affairs had been administered. Many of the coins, too, then paid out, showed marks of the fire which had burnt down the state-house, (in which the bank was kept,) soon after the bank was established.

The affairs of the bank were managed by the four burgomasters of the city, who were elected annually. They received the funds of the bank from their predecessors, and, after having ascertained its amount, took an oath to deliver it over to their successors.

Such was this celebrated bank, as it was exhibited to the world by Adam Smith, from the year 1775, to 1784,* on the authority of Mr. Henry Hope, at that time one of the greatest bankers and merchants of Amsterdam. But, ten or twelve years before Smith wrote, as appears by sir James Stewart, the popular opinion in Holland was, that coin had been taken out of the bank for the service of the state, though on the faith of the representations made to him, he did not credit the suggestion. But in no long time after Smith wrote, it appeared

* The dates of the first and the last edition, published by Smith.

not only that the public confidence, though well founded at first, had been finally abused; and, what is far less usual, that the popular suspicion proved to be more correct than the opinion of the most intelligent part of the community.

It appeared, by subsequent disclosures, that, about the middle of the last century, the bank began to make secret advances to the government and to the East India Company; and it was after these clandestine loans, according to Storch, that the bank resorted to several devices, to prevent its dealers from drawing specie from its vaults, which, however, were so ingeniously contrived, and on such plausible grounds, as to excite no suspicion.

Of this character, he says, was the ordinance which, under the pretext of placing all the dealers with the bank on the same footing, required the owner of bank money to procure receipts for the same amount, before he could withdraw gold or silver from the bank.

But it is manifest, that, as so many receipts had run out of date, (nearly all that had been given with the first deposits,) there was not enough in existence to correspond to the whole amount of bank money, and, consequently, there was, of necessity, a large amount of the deposits, which, by the provisions of the new ordinance, could never be withdrawn from the bank.

The blind confidence of the public, on this occasion, is imputed to the punctuality with which the bank had always fulfilled its engagements; to the recollection of its proved fidelity in 1672$\frac{1}{2}$; and to

the respect entertained for the magistrates of the city. It may be farther added, that as no individual, who wished to draw specie from the bank could find any difficulty in obtaining a receipt, there being an abundance in the market — on these accounts, the measure seems to have excited as little complaint as suspicion.

But, in 1790, when private interest was affected, confidence in the bank was shaken. It then published a declaration that it reserved to itself the right of determining the price of silver, from month to month, and it then began with fixing it at such a price, that those who had deposited ingots of this metal, sustained a loss of 10 per cent. It, at the same time, declared that it would not return the deposits, except to such of its creditors as had 2500 guilders in the bank.

The general distrust which this declaration excited after a while passed away; but, in 1794, on the invasion by the French, another declaration, signed by the representatives of the people of Amsterdam, put an end to the public confidence forever. The directors admitted that, about 50 years before, the bank had advanced to the East India Company, to the provinces of Holland and West Friesland, and to the city of Amsterdam, in succession, the sum of 10,624,793 guilders, equal to something more than 4,000,000 of dollars; so that, although the debts and credits of the bank were equal, its coffers no longer contained the entire value of its deposits. A part of its funds had been lent to those who were not able to repay it. This

amounted to an admission of bankruptcy; and the bank money, which had borne a premium of 5 per cent., fell to 16 per cent. below the current money, and thus lost its general credit in the commercial world, which it had sustained, at an unexampled height, for near two centuries.*

Its operations were, however, continued on a reduced scale until 1814, when they ceased, without any formal declaration of law.† Its functions seem to have been superseded by those of a bank of circulation established in that year at Amsterdam.

The details of this bank have been the more full, on account of its former celebrity, the complexity of its system, and the discordant and often unintelligible accounts that have been given of its operation by different writers. Though some of these cannot be reconciled,‡ they, together, warrant us in deducing from its history the following conclusions:

It was a radical vice, in the plan of this bank,

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* Storch, Pol. Econ., Vol. IV., p. 102.

† Kelly's Cambist, Vol. I., p. 17.

‡ For example, Smith speaks of two species of receipts; one given for deposits of coin, and another for those of bullion, while Storch mentions but one. Smith thinks that no specie or bullion ought to be drawn from the bank, without a surrender of both a receipt and a bank credit. According to Storch, while this was perfectly right as to deposits of bullion, it was not so as to deposits of coin, and that the requisition was a device of the bank to keep its gold and silver, after it had been withdrawn to be lent out. It is to be wished that we were more accurately informed of the proceedings of this bank, not so much to gratify curiosity, but because a knowledge of its history may teach salutary lessons to bankers, and also warn the public against similar artifices in our own time.

that the proprietors of its capital, that is, of its deposits, had no share in its administration or its profits, and were not even permitted to examine its condition, or inspect its books.

As a disordered currency first suggested the bank, so it seems probable that, but for this evil, of which all felt the inconvenience, the merchants would not have made the deposits which constituted the basis of the bank money, on the condition of receiving less than its nominal amount.

And, though such deposits had been made, they would not have been suffered to remain, as bank money could then have borne no agio on current money beyond what might arise from its security from loss, and the saving the trouble of weighing and counting,—real advantages, certainly, but for which men are not willing to pay much.

And, lastly, we may infer that since private interest was not allowed to see to the faithful administration of the bank, greater publicity as to its transactions and the state of its funds would have been a better security for such fidelity than the annual rotation of its directors, and the solemnity of their oaths, on which Adam Smith seemed to place so much reliance.

The bank of Hamburg is the next in celebrity of the banks of deposit, and it is thought to be the best constituted bank of that description in Europe. It was established in 1619, ten years after the bank of Amsterdam, and on the same plan. Its treasure at first consisted of German crowns; but,

having in the middle of the last century experienced much inconvenience from the disorders of the currency in Germany, at the end of the seven years' war, it was obliged to close its vaults. It afterwards, in 1770, agreed to receive ingots as well as crowns on deposit, and it had two treasuries, or receptacles, — one for crowns, and the other for ingots or bullion. But, since 1790, it receives only silver bullion, which has rendered the money of this bank the most invariable measure of value now existing in Europe. This silver is required to be 47 parts fine to one of alloy, and the expense of assaying the bars and making them of that degree of fineness is paid by the depositor. He also pays nearly ½ per cent. for safe keeping, when he withdraws his bullion. He, of course, is not likely to withdraw it, until there is a sufficient rise in the market price of bullion to indemnify him for these deductions, and yield a profit.

The bank also lends money on Spanish dollars, for which it delivers a receipt payable to the bearer, as was done in Amsterdam. But it does not require a depositor to bring a receipt before he can receive his deposit, nor a borrower to return the same amount in bank money, before he can withdraw the dollars he has pledged.

It lends money at the moderate rate of 2 per cent. a year, for three months. A large number of the citizens take part in its administration. Its affairs are managed with more publicity than were those of the bank of Amsterdam. Its directors are frequently changed, and they are subjected to an

efficient responsibility. When, in 1807, Hamburg was seized by the French, and attached to the empire, and when, in 1813, it was alternately in the possession of the Russians and the French, the credit of its bank was not affected; and when the French general last took possession of the city, the funds of the bank, seized by his order, amounted to 7,489,343, equal to more than 2½ millions of dollars.* But a much larger amount had been previously withdrawn by its proprietors, on the approach of the French. The bank soon after resumed its operations with its former credit, and the French government have since made restitution of the money its army had seized.

There are banks of deposit also in Rotterdam, Nuremburg, and some other places; but they are more circumscribed in their operations, and less known abroad. There has never yet been a bank of this description in the United States, or in Great Britain.

The advantages of banks of deposit are, that they secure to the public the most important advantages of paper currency without its dangers. They keep the precious metals secure from robbery or loss from wear. The public is saved the necessity of weighing and assaying them, and of transporting them from place to place; and as the money of the bank cannot exceed the gold and silver in its coffers, it cannot become depreciated by excess.

* Storch, Vol. IV., p. 106. Kelly's Cambist, Vol. I., p. 188.

The objections to them are, that they effect no saving in the precious metals, and that they present temptation to those who manage them, or those who control them, which will not always be resisted.

The advantages of banks of deposit, compared with those of circulation, will be more fully exhibited in a subsequent chapter.

CHAPTER IV.

ON BANKS OF CIRCULATION.

That description of banks which exclusively prevails in the United States, and which they have borrowed from Great Britain, has been called, by way of distinction, banks of circulation. They are so called, because they issue paper which performs the office of a circulating medium, whereas, the banks of Venice and Amsterdam merely made transfers on their books of the money which had been deposited with them, on the written order of its proprietor. They issued, indeed, a receipt, or *recepipe* for every deposit of gold or silver they received, but this receipt never circulated as currency. It was merely a sort of document, to enable the owner of bank money to draw specie or bullion from the bank, was rarely worth more than 3 or 4 per cent. of the sum it expressed, and often nothing at all.

This point of difference has been attended with the most important results. It has given to banks of circulation a power and efficacy, in assisting the commercial and pecuniary transactions of society, as superior to those exercised by banks of deposit, as are the advantages of a modern rail-road over those of a common turnpike ; but, like the rail-road,

to avoid the greater dangers incident to their greater powers, they require to be prudently managed and to be subjected to strict regulations.

Their immediate and principal operations consist in discounting promissory notes and bills of exchange not yet due, that is, in lending money on the credit of these negotiable papers, after deducting or discounting the interest; and in receiving deposits of money for safe keeping. It is then by being banks of discount and of deposit, that they have become banks of circulation, in the way that is now to be explained.

The bank having, in the first instance, provided itself with a stock of current coin and of its own promissory notes, payable to bearer on demand, in convenient sums, as fives, tens, twenties, and the like; when any holder of a negotiable paper not due, who wishes it cashed, obtains a discount, he is offered either specie or the notes of the bank. Now, as these notes are convertible into current coin at the pleasure of the holder, if the public have confidence in the solidity of the bank capital, and in the prudence and good faith of those who manage it, as they commonly have, most persons will prefer the notes to specie. They are more easily carried or transmitted from place to place, are more easily made secure from robbery, and are more readily counted. The trouble, moreover, of weighing coin, of assaying its purity, and of examining every piece to detect those that are spurious, is thus thrown on the bank. The same considerations which induced the original borrower to

receive them from the bank, induce others to receive them from him, and thus they obtain a general circulation. They share these advantages with banks of deposit.

But, as, notwithstanding the convenience of bank notes, some persons will prefer specie, from whim, from want of confidence, or for distant travel or remittance, a certain proportion of all the loans of the bank will be made in coin; and as its loans increase, its gold and silver diminish. The directors take care, however, not to let its specie be reduced so low as not to be sufficient to meet even extraordinary demands for cash. When their specie is reduced to this point, their discounts have reached their utmost limits consistent with prudence. The bank then keeps up the amount of its loans by relending what its former borrowers have repaid.

What will be the amount of specie it will be prudent to retain, and what amount of paper they have been able to put and keep in circulation before their specie is reduced to this point, can be determined only by experience. It varies according to circumstances, and is very different, at different times, in the same place. Some banks have thought it prudent to keep one dollar in specie for every three dollars they had in circulation; while others deem it safe if they have one dollar for every six or seven. In places, too, not favorable to a diffusive circulation, a bank may be reduced to one dollar for six or seven, before it has lent to double the amount of its original stock of specie;

while another, under more propitious circumstances, may lend to more than twice the amount of its stock, when the amount of its paper circulation is not more than three times the amount of the specie in its vaults.

As the profits of the bank are in proportion to its loans, and these, again, are in proportion to the extent of the substitution of their paper for coin, these institutions bend all their efforts to support the credit of their notes, and to give them as extensive a circulation as possible, consistent with safety. The means they adopt to this end are, to give a preference, in their discounts, to those persons who will draw notes from the bank rather than specie, and to those who will circulate the notes in distant channels, so that they will be long in returning to the bank. They invite deposits, especially of specie; but, at the same time, are prompt to redeem their notes in specie, on application. They discount more freely, too, when the value of exports chances to exceed that of imports, so that gold and silver tend more to flow into the country than out of it; but are proportionally cautious, in an opposite state of the foreign commerce. In this way, under favorable circumstances, they can extend their loans often to more than twice the amount of their capital.

In this mode, and to this extent, the discounts of banks operate to give their paper circulation. But banks are also the chief depositaries of the money of individuals, whether specie or paper. This they keep without charge, and pay away, on

the written order or check of the owner. In this character of a bank of deposit, they commonly receive a good deal of the money they have lent by way of discount.

As these deposits can be withdrawn from the bank at the pleasure of the owners, and constitute a part of its liabilities, as much as its notes in circulation, they may, at first view, seem to be of no advantage to the bank; but, since it is known, by experience, that, though they may all be withdrawn at once, they, in fact, never are; and, though the bank is continually paying off some deposits, it is continually receiving others — the lowest amount which the bank has, at all times, from this source, is so much added to its ability to make loans, and, consequently, to its profits. The bank can venture to trade on this minimum amount of its deposits, on the same principles on which it issues paper to a greater amount than the specie in its vaults.

As the bank never issues its own notes, except in exchange for the promissory notes or bills of exchange of individuals, or, perchance, in exchange for gold or silver, it must always have, in negotiable paper and specie together, a sufficient amount to balance its paper in circulation, exclusive of its capital stock. The public then has an ample guarantee for the stability of the bank, and the redemption of its notes, if they have been properly constituted, and prudently managed. The rules which experience seems to recommend for a wise organization of a bank, and to secure its skilful and prudent management, will be hereafter con-

sidered. Let us now notice some of the details of their administration, as they exist in the United States.

The capital of the bank is owned by an association, who commonly obtain a charter of incorporation; as, in most of the states, private banking, or rather issuing notes payable to bearer, is prohibited. This capital is divided into shares of a convenient amount, generally of either $100 or $50; and as soon as the whole stock is subscribed, the stockholders, after making by-laws for their government, elect a president and directors, who appoint the subordinate officers; and the bank begins its operations with such part of its capital as is, by the terms of its charter, to be paid up.

The paper offered for discount is submitted to the president and directors; and sometimes a bare majority of votes is not sufficient to pass it; but as few as a third may reject it. The board meet once a week, — in some banks, twice, — for the purpose of discounting. They commonly discount no paper that has more than 60 days to run; but some extend the limit to 90 days. They require, in some banks, two responsible names on the paper; and in others, three.

When a note of 60 days is discounted, as, by the usage of merchants, it has three days of grace allowed after it becomes due, the note is not payable but on the sixty-third day after its date; that is, in precisely nine weeks after it was discounted. If, then, the business of a bank was entirely uniform, in every week, one ninth of its lendable

funds, deducting the interest, would be issued from the bank, and one ninth would be returned to it. Although banks profess not to lend money for more than 90 days, and some not for more than 60, yet, as these loans are for too short a time to suit the purposes of many of their borrowers, they therefore not unfrequently renew the loan at the expiration of the term for which it was borrowed; which process is sometimes continued for years, — the borrower being merely required to give a new promissory note, and pay the interest at each renewal.

Notes thus renewed are called *accommodation paper;* and the same term is applied to promissory notes, or bills of exchange, which are not given in consequence of any real transaction between the parties, but merely for the purpose of raising money.

Paper of this description is less favored by banks, than that which has been given in consequence of a sale, or other regular mercantile dealings, and which, by way of distinction, is called *business paper.* Their greater willingness to discount the latter is founded on the following reasons: — Where the note or bill was given in payment of merchandise, the bank has a greater security that the money which it has advanced will be repaid when due, and when the bank may greatly need it; inasmuch as when the payer contracted the debt, he, at the same time, received its equivalent: whereas, in the case of accommodation paper, although that, too, may be vested in merchandise, it may also

have been borrowed to spend, or to pay an old debt; in which case, the borrower must rely upon some other resource to pay the bank. Again: by discounting business paper, the bank encourages commerce, by giving to merchants' notes the same credit with the public as cash; which is beneficial both to them and to the other classes with whom they deal. Merchants can, in this way, buy more freely; and, affording to take smaller profits, can give higher prices. And, lastly, when the discounts are of this character, the paper thrown into circulation is likely to be more accurately adjusted to the wants and circumstances of the country. The facility of obtaining money on accommodation paper, furnishes at once the incentive and the means of overtrading.

The rule, however, is a flexible one; not only because, on the principles that have been mentioned, some accommodation paper is better than some business paper, but also because sudden and urgent demands for money, by responsible persons, who are not merchants, and for other purposes than to make purchases, will not be disregarded by institutions which profess to be established for the public convenience, as well as for private gain.

They also, in deference to public sentiment, commonly refuse discounts to habitual usurers; it being invidious in the extreme, for corporations, enjoying the privilege of furnishing the community with a currency, to refuse their money to the industrious mechanic, the enterprising merchant or manufacturer, or the substantial farmer, who wishes

to anticipate the proceeds of his crop a few months, and grant it to the rich money-lender, who, in the relative scarcity of money, may be able to relend it to those whose claims he has intercepted, at a higher interest. But neither is this rule invariably observed.

The board of directors have regularly laid before them, on every discount day, an exact account of their debts and credits, under a few general heads, so as to show the condition of the bank at the time, and any indications of change that may have taken place since the preceding discount day.

The private accounts which individuals keep with the bank, and which show, not only what they have borrowed of the bank, but also their deposits and disbursements, cannot be inspected by the board, without a special order for each individual case. This rule, however, does not extend to an account of the money they may owe the bank, whether as payer or endorser.

For the same reason that banks receive and disburse deposits without charge, they gratuitously collect all notes, drafts, and other negotiable paper that is entrusted to them, whether they are payable in the same place, or in any distant city in which there is a bank in friendly correspondence with them. As a matter of courtesy, which is now grown into settled usage, they give every one, who has a note due at bank, whether it was discounted, or put in for collection, a notice in writing, three days before the paper falls due.

Besides the checks and securities that are afford-

ed by their several accounts, and a daily examination of the money placed in the hands of the subordinate officers, a committee of the directors, at stated times, (as once a month, or oftener,) inspect the vaults of the bank, and see if the specie, bullion, and notes on hand, correspond with the books.

A portion of the directors (commonly about a fourth) is changed every year. The president, and other officers of the bank, are permanent.

In addition to the profits which the bank derives from discounting paper, and by which it receives the same interest from its notes as from its specie, it also, occasionally, sells its own drafts on distant banks for a premium, — it having been previously arranged between them, that they would accept each other's drafts.

The interest they receive, too, in the way of discount, though nominally at the rate of 6 per cent. per annum, somewhat exceeds that rate; partly because, being able to turn over their money nearly six times a year, (when they lend only for 60 days,) they receive compound interest; and partly from their mode of computing interest. There are three of these petty sources of gain:

1. When a promissory note is discounted, the interest for the time it has to run is deducted from the amount of the note, and the residue is paid to the former holder; by which means the bank virtually receives interest on the sum deducted, as well as on the sum paid. Thus, if the note be for $100, payable in 60 days, its interest, at 6 per cent. a year, will be 1 per cent. This interest is

accordingly deducted, and the bank pays $99 on account of the note. As the borrower receives but $99, the interest he will owe, at the end of 60 days, is only 99 cents; whereas, he then pays, and the bank receives, 100 cents. The excess is $\frac{1}{99}$ of the interest.

2. It is the practice of banks and bankers, to consider 60 days as the sixth part of a year; and, in this way, they receive, for 360 days, the interest that is due only on 365 days; and thus, in a discount for 60 days, they receive interest for $\frac{5}{6}$ of a day more than is due; and in leap years, for one day. This excess amounts to $\frac{5}{366}$, or $\frac{1}{73}$ of the legal interest.

3. We have seen, that a note drawn payable in 60 days is, by adding the three days of grace, not actually payable until 63 days. In some of the states, it is the practice of the banks, when they discount such notes, to deduct interest for 64 days. They justify the practice in this way: as soon as a note is discounted, (which is in the earlier part of the day,) the person entitled to the money may draw it immediately from the bank. But, at the end of 60 days and the three days of grace, the bank may not receive the money until the last moment of the natural day; the law of the land giving this indulgence to the payer, so that the bank may thus be deprived of the use of its money for 64 days. As, in point of fact, the bank always receives payment on the sixty-third day, where it receives it at all, the excess of its gains from this source is $\frac{1}{63}$ of the legal interest.

The result of these several minor sources of profit is, that, together with the gain from compound interest, they give the bank about 6.42 per cent. a year on the sum loaned, and about 2 cents more every fourth year. This addition of 42 or 44 cents in the year on the hundred dollars, though comparatively light and insignificant to those who deal with the bank, makes an important item in the account of their annual profits. Thus, for every million of dollars lent in a year, the interest beyond 6 per cent. would be upwards of $4000. But their chief source of profit is in being able to lend to a larger amount than their capital, by the substitution of their paper for specie.

Their profits from these several sources they distribute twice a year among the stockholders, after deducting their expenses, and putting by a part, either to make good losses that have occurred, or such as may subsequently occur, or to supply the deficiencies of an unprofitable year. In this way, a large surplus sometimes is suffered to accumulate, before it is reduced by an extra dividend.

Their expenses consist of the cost and annual repair of their banking-house, of the salaries of officers, of postage, of stationary, of the cost of engraving and printing notes, and, occasionally, of the expense of transporting specie.

The expenses of banks are very different in the different states. Thus, the real estate they hold, which (except in a few cases, where it has been received or purchased to secure a doubtful debt) consists of the buildings required for banking,

amounts, in some states, to near 3 per cent. of the capital stock; and, in others, to 10 per cent. On the 1st of January, 1834, the average amount on all the banks of the United States was 5 per cent.

There is, probably, a yet greater difference in their current annual expenses. Those of the banks of Virginia are about 2 per cent. on their capital stock. The cost of their notes is about 1½ cent apiece, or $1200 for an impression of 80,000 notes. Their net profits vary from about 7 to 10 per cent.

CHAPTER V.

THE ADVANTAGES OF BANKS OF CIRCULATION.

After banks have been established in a community sufficiently long for the public to have acquired entire confidence in their solidity, and to have become familiar with their paper, this, by its superior convenience to the precious metals, is found to constitute a principal part of the circulation.

The public, therefore, has an interest that the notes of the bank should maintain their credit, and that they should be supplied in a quantity adapted to the wants and circumstances of the country. If, by the too great eagerness of these institutions to enlarge their profits, or from the mere disposition to accommodate the greedy spirit of speculation of a few favorites, they should throw too much paper into circulation, the public is injured in one way; and, if, from too great timidity, or by way of counteracting the effects of their former rashness, or from the corrupt motive of making money scarce, that they may afterwards profit by it, they should too much or too suddenly contract their issues, then the public is injured in another way.

The consequences of an excessive circulation are a depreciation of money, overtrading, with all its

mischiefs, rash enterprise, and extravagance in private expenses. The regular course of industry is interrupted, for hazardous and unprofitable schemes take the place of those employments, whose gains, though sure, are slow ; importations are encouraged beyond the wants and the means of the country, and the foreign debt thus created, by drawing off the coin of the banks, either compels them to suspend cash payments, or to withdraw their paper from circulation, and thus produce the opposite evils of a deficient circulation.

These evils, as was formerly shown, are almost equally disastrous. If the over-issues of the banks injure creditors, a great contraction of them is yet more injurious to debtors, who are less able to bear the loss, and who are less able, generally, to wait until the quantity and value of money have regained their natural level. Creditors, too, are often eventually injured by the loss of their debts. The wheels of commerce, industry, and credit, are stopped for the time, and every class of the community suffers more or less, except the small number who then embark in the business of money-lending.

Such being the interest which the public has in the prudent and skilful management of these institutions, the privilege they possess of substituting their paper for money, has, in most countries, been subjected to the control and regulation of the legislature, who, besides making them pay for a privilege which is so profitable, imposes on them such restrictions as will be likely to prevent their abuse

of it. These have not, however, been as yet sufficient to secure the public from the over-issues of banks, the mischiefs of which have been so serious, as to make many persons question whether the facilities they render to commerce are not outweighed by their inconveniences, and to incline some who more highly estimate their benefits, to believe that their imprudence would be more effectually prevented, if they had neither privileges nor restrictions, and if the banking trade, like every other, were left to the free competition of individuals.

To assist us in deciding these questions, let us consider separately the advantages and inconveniences of banks, and then inquire how far the one may be promoted and the other diminished by a judicious system of regulations.

Banks of circulation seem to be useful to the community in the following ways:

1. To the extent that the paper of a bank substitutes gold and silver, it saves that amount to the nation. The money of a community, we have seen, may be as much as one fifth of its annual revenue, and from one half, or perhaps to three fourths, of its currency may be in paper.

It is supposed, by Mr. McCulloch,* that, by the facilities afforded by banks and bankers in Great Britain, the 50 or 60 millions which is believed to be the amount of its circulation in coin and paper together, are made to perform the functions of 200 millions; so that, after deducting the 20 or 30

* Com. Dict., p. 65.

millions employed by the bankers, as a capital, in their establishments, no less than 120 or 130 millions cease to be employed as an instrument of circulation, and are made available in some mode of productive industry. But, without indulging in speculations founded on conjecture, we may fairly estimate this benefit by the actual extent of the paper circulation, after deducting the amount of specie retained by the banks to support that circulation.

According to the report of the secretary of the Treasury,* the amount of bank paper in circulation on the 1st of January, 1838, was 116,000,000; of the deposits, 84,000,000; of the specie in their vaults, 35,000,000; and the notes issued by one bank, but in possession of another, near 25,000,000. As the deposits in a bank, by the facility of checks, perform the functions of currency, they should be added to the notes in circulation; but from the latter, the notes of one bank, possessed by another, should be deducted. This will show the extent of the substitution to be 140,000,000, or more accurately thus:

Circulation, . .	$116,138,910	
Deposits, . . .	84,691,181	
		$200,840,091
Deduct, —		
Specie, ...	35,184,112	
Notes of other banks,	24,964,257	
		60,148,369
		$140,691,622

* June 7, 1838.

To the extent, then, of this 140,000,000, we are warranted in inferring, that bank notes have saved the use of the precious metals in the United States, and that capital to that amount has been diverted to other objects. Or we may estimate the benefit by the annual profit which the country derives from the amount of capital thus disengaged. At the moderate profit of 6 per cent., it would be more than 8,000,000 a year; and if we rate the average profits of capital, as many would do, at 10 per cent., the annual gain from the substitution is 14,000,000; to which we must add the loss from wear, shipwreck, and other casualties, which may be set down, at least, at 1,000,000 more. But, from the amount, we must deduct the expenses of the banks.

2. Banks not only substitute a cheap for a costly instrument of exchange, but also a far more convenient instrument. The saving in the precious metals is probably small, compared with the saving of time, which is effected by means of bank notes and bank checks. The payments which are made with so much facility, where there are banks, would be almost impracticable in the precious metals. Thus, in silver, 10,000 dollars weigh 660 pounds, and 100,000 dollars 6600 pounds, equal, in the transport, to two ordinary wagon-loads; to say nothing of the time required to count it, and the precautions to protect it. If it were paid in gold, though the weight would be so much less, the trouble of weighing and assaying would be superadded. Nor is this all; for, as bank paper,

and checks, and drafts, can be so readily reckoned, and so expeditiously transmitted to the most distant parts of the country, a purely metallic currency must be much larger, to admit of the same operations. Private bills of exchange may, indeed, in like manner, save the necessity of transporting gold and silver; but, besides that they are not quite equal to the drafts of a bank in good credit; the paper of such a bank may have credit and currency in places on which a private bill could not be obtained. Suppose, for instance, it were necessary to transmit a sum of money from New Orleans to New York. Its amount might pass and repass between the two places two or three times, while the specie was on its passage, with no more expense than sending so many letters. And whenever it is necessary to transmit money to a place in almost any of the western states, it very rarely can be done by private drafts, but must be effected by the transmission of specie, or by bank paper.

We cannot estimate the saving of time and trouble, by simply regarding the amount of the metallic currency, which is substituted; but we must also take into account the great number of payments, which the same quantity of money, and especially of bank money, can make in a year; for, as often as every bank note is used, or the same money transferred, by check, from one person's account to another's, to the same extent is the benefit multiplied.

In a commercial city, banks greatly economize *time* and expense, in keeping accounts. In every

counting-house in which much business is done, they probably save the expense of a clerk, in receiving and disbursing cash. If the labor thus saved is equal to the expenses of banks, as it may be in large cities, then the profits arising from the substitution of bank paper for specie are a clear gain to the community.

3. They give the moneyed capital of a country a more useful direction. There is, in every community, a considerable class who are possessed of money, but who are not capable either of using it profitably, or of lending it out with that discretion which will insure its safety. Of this description are orphans, widows, and females generally, aged persons, and, occasionally, public officers and professional men. The money of such persons, by being vested in a bank, and subjected to the management of directors, chosen for their knowledge of the credit and resources of individuals, can be lent out with equal safety to the proprietors and advantage to the community. They can distinguish between solid wealth and the deceitful appearances of it — between real integrity and hypocritical pretension — between the enterprises of prudence and industry and those of rashness and folly; and they will be led by interest, as well as a sense of duty, to make the discrimination, in the distribution of their loans.

As places of deposit, banks also receive all the small sums of unemployed money in their neighborhood, and which, useless when dispersed, become, when united into one mass, efficient in the useful offices of money.

In this way, too, if the interest, as settled by law, is too low, compared with the average profits of capital, the increased demand for loans for safe and legitimate objects will, to some extent, enable the bank to increase its issues; whereby its profits will be increased; and thus the moneyed capital will be able to obtain the fair profit to which it is entitled. In this way, the chief mischief of the usury laws — that of preventing capital from taking its most beneficial direction — is, in a great measure, counteracted. By obtaining an additional profit for their money, in the form of bank dividends, those money-holders whom the usury laws might induce to engage in modes of employing their money, for which their other pursuits or their inexperience disqualifies them, will be less likely to do so; and thus the spare capital of the community, to whomsoever it belongs, is placed in the hands of those who are most capable of rendering it productive — of the most active, industrious, judicious, and enterprising portion of society.

4. The creation of a class, who derive an income from their capital without labor, care, or risk, encourages economy and industry. Many a one, who would otherwise live up to his income, or exceed it, is encouraged to a more thrifty course of management, by having always at hand a ready means of investing his small savings. This tendency banks share with all joint-stock companies, whose dividends are regular. But it is particularly beneficial in agricultural and slaveholding communities, where motives to thrift and economy are *most* needed.

5. There is another advantage in banks, which is less obvious, and which applies only to young and growing countries. We have seen that such countries are, in general, inadequately supplied with money, in consequence of the extraordinary demand for capital there experienced, and their consequent inducement to supply its place with substitutes. Now, banks have the faculty of remedying this deficiency of money, without encroaching on the other demands for capital. By keeping up the quantity of currency to the level of the ever-growing demand, they extend the benefits of cash dealings farther than they would otherwise reach. In this way, they confer on the community the advantages of cash and credit united; of credit, because the notes are of no intrinsic value, and are taken in the confidence that they can be converted into coin, at the pleasure of the holder; and of cash, because, by reason of their general currency as money, they produce all the saving of time and accounts that specie could do.

By this facility of throwing an additional amount of money into circulation, whenever a more enlarged or more valuable traffic requires it, they give a stimulus to productive industry, and prevent, or lessen, the stagnation of business produced by a deficiency of circulation. Enterprises of great public utility, requiring large advances of money, may sometimes obtain such advances from these great reservoirs of capital, when it might not be easy to obtain them from capitalists, by reason of the extreme caution of that class of men;

and when it might be utterly impracticable to obtain them from some twenty, thirty, or more holders of small sums.

6. Lastly, — banks may benefit the community, by lending money to the government, in seasons of great difficulty, or in sudden emergencies, when the ordinary resource from taxation would be too slow, and might be inadequate. On these occasions of extraordinary public demands for money, the sources of private income, which constitute the great fund for taxation, seldom fail to be impaired; and, though that were not the case, it may afford great relief, for the time, to borrow the money, and either defer the repayment of it to a season of returning prosperity, or divide the burthen among several succeeding years. The banks of Virginia, during the last war, rendered essential service to the state in this way; and similar services were rendered by banks in some of the other states.

Such seem to be the benefits conferred by these institutions; benefits which are so considerable, that they may be regarded as among the most valuable inventions of modern times.

CHAPTER VI.

THE INCONVENIENCES OF BANKS OF CIRCULATION.

But the benefits of banks of circulation, great as we have seen them to be, are not without their alloy; and we will now notice their attendant evils.

1. One of the mischiefs of banks is, that, from the facility with which they can enlarge the currency, and the strong motive of interest they have to enlarge it, they often increase the circulation too much; by reason of which, one of two consequences follows, namely, they are either obliged to contract their issues to the extent those issues have been redundant, and even to a greater extent, or they must stop payment. In the first case, the country suffers the evils of a *deficient circulation;* which are the more felt, in consequence of the transition from the previous redundancy; and, in the last case, it suffers from a *vicious circulation.* And while the excess or deficiency of money can be so much more rapid where the currency is paper than where it is metallic, the mischief, in both cases, must be corrected, in general, by the same slow process of foreign trade.

The changes, too, are often greater, as well as more sudden, than they could be with a metallic

currency. It is true, that, when bank notes have depreciated, by reason of their excess, the evil tends to work its own cure, as in the case of excess of gold and silver, by causing an export of specie, which, by reducing the currency *directly*, when it is metallic, and *consequentially*,* when it is paper, raises the value of the remainder; but, before this process by foreign commerce can do its office, or even produce any salutary effect, the redundancy of paper may have gone on increasing. In the case of the precious metals, our supplies are drawn from a distance, they are obtained in small quantities at a time, and, except when borrowed, only by giving an equivalent. But, in the case of paper money, our supply is at home and unlimited, except by our own politic forbearance. No one can suppose, that, if our currency had been exclusively metallic in 1836 and 1837, it could have mounted up to that point of redundancy which bank paper then reached.

2. The deficiency of money is also occasionally greater, by reason of banks.

As the credit of their paper rests on its ready convertibility into gold or silver coin, these metals are essential to its currency. They give it its vitality. It follows from this, that whenever bank paper forms a principal part of the money of a country, and the precious metals are exported to pay a foreign balance, the consequent deficiency of

* By compelling the banks to call in their paper, to prevent its being returned to them for specie.

money is far greater than if the circulation were purely metallic.

By reason of the vicissitudes to which all foreign commerce is exposed, the whole amount of exports in the year occasionally falls short of paying for the imports. Exchange will, of course, be unfavorable, by the demand for bills exceeding the supply; and the tendency of gold and silver to leave the country will be proportionally increased. Now, the banks, which are the great repositories of the precious metals, are the first to feel the demand for these metals for foreign export, and when they find their specie, the vital current of their existence, running from them, they are compelled, in self-defence, to contract their issues; that is, to require a part of their debtors to pay up what they owe; which they have an opportunity of doing every discount day, to about a ninth of their outstanding debt. And if they aim to restore that proportion between their specie and their paper which is considered safe, they must withdraw from circulation paper to several times the amount of the specie that has been taken from their vaults. Thus, suppose the proportion of four dollars of paper in circulation for one of specie in their vaults—and they often have a much greater disproportion — then, after this proportion has been disturbed by the notes which have been returned to them in exchange for specie, if they would restore it, they must call in three times as much paper as they have paid out in specie, which, with the one part of paper that was returned to be converted into

coin, makes up the original proportion of four for one; and the greater have been the issues of a bank in proportion to its specie, the more, when a run is made on it for specie, must the paper it withdraws from circulation be multiplied, if it would preserve its solvency and credit.

When, however, the circulation is wholly metallic, the contraction of the circulation is only to the amount which we have supposed drawn from the bank for exportation, and which, even supposing the banks to be rigidly governed by the rules of prudence adverted to, would only be one third as much as when the circulation was principally paper.

It is true, that, in point of fact, the banks may not feel it necessary, nor, indeed, quite practicable, to withdraw from circulation paper to so large an amount. That course would have its own dangers and inconveniences. They, therefore, commonly exercise greater forbearance, and aim to restore a safe proportion between their circulation and their specie, by a more gradual reduction of their paper, or until a change in the current of trade should bring back specie to the country; and they generally trust to both these expedients; but in part, also, they must resort to an immediate reduction of their circulating paper; and when the run on them for specie has been considerable, they must at once engage in a course of vigorous reduction, which is very distressing to a part of their debtors, and, by the failures it occasions, often proves eventually injurious to themselves.

This evil is inseparable from banks of circulation, and is one for which there seems to be no remedy, unless it be one which would prevent a nation from ever owing a foreign balance. The evil, too, is great in proportion as paper constitutes the circulation of a country, and as it exceeds the amount of coin in the vaults of the banks.

We had an illustration of this mischief the last year, when the demand on the banks was so strong, for the purpose of making remittances to Europe, that they were under the necessity of suspending cash payments, or be drained of all their specie. Their temporary stoppage, in consequence of their previous over-issues, and the change in the state of foreign trade, was inevitable, and all they could do was to choose whether they would stop, while they were in good credit, and they were known to possess a large amount of specie, or when that specie had been all drawn out, and when their credit would have been proportionally impaired.

A similar course, under weaker inducements, probably would have taken place in the year 1819, but for the dread of the public indignation, while the mischiefs of the suspension of 1813 were fresh in the recollection of all, and for the check presented by the bank of the United States, then recently established, and, of course, better able to stand the shock. Had the state banks suspended while this bank paid specie, their paper would have been generally discredited, and driven out of circulation, which that of their great rival would have

filled. They accordingly decided on weathering out the storm, and they succeeded; but the withdrawal of their paper from circulation by themselves, or the return of it by others to be exchanged for specie, deprived the public for a time of all currency, and the pressure was severe beyond all former example.

It deserves to be mentioned, that the suspension of 1837, as well as that of 1813,* had the subsequent sanction of the American public, as expressed by their legislatures.

3. Whatever may be the mischiefs of overtrading, and a gambling, speculating spirit in the community — and they are for the time very great — banks must be considered responsible for a large portion of it. When the course of foreign trade is prosperous, and when specie consequently tends to flow into the country, or at least not to flow out, then the banks are strongly tempted to extend their loans, by the seeming impunity with which they can thus augment their profits, at the moment when the cheering influence of public prosperity has given a great spring to the spirit of enterprise. The banks, by affording aliment to this spirit, give it a force and vigor of mischief it could not otherwise attain. They are thus, without intending it, and in the mere pursuit of their vocation, stimulating the love of gain to all sorts of money-making schemes and adventures. The

* In the suspension of 1813, the banks of Boston, and some others in New England, were not comprehended.

wild and extravagant spirit of speculation is never seen to prevail to such an extent, as in countries where there are banks of circulation, and in no part of such countries, as in those cities and towns in which banks most abound.

4. In the same way that banks encourage over-trading and speculation, they encourage expensive habits. Those who can obtain money so easily, and can put off payment at pleasure, are often careless and thoughtless of their expenses. We see proofs of this effect of banks, in the great increase of buildings, and in the more costly character of the dwelling-houses, which is sure to follow the establishment of a bank in a town; and also in the many examples of persons who have large accommodations at bank, and live expensively, but whose affairs, when once fully made known, show that they have been long insolvent.

All of these disadvantages, that have been hitherto found attendant on banks, may, by a course of prudent, firm, and judicious management, be avoided, except one, and that is, the extraordinary reduction of the currency, whenever specie is, by the state of foreign trade and exchange, driven out of the country. If banks would confine their discounts principally to the paper of those who are engaged in a regular course of business; if they would refuse accommodations to the rash, adventurous, and over-sanguine, and, above all, to those who were disposed to live ostentatiously; and if they would check their issues whenever they saw the spirit of speculation abroad, they might do

much towards keeping up the equilibrium between imports and exports. But such a result cannot be expected, whilst bank charters are obtained with so much facility, have had their privileges so inadequately tempered with salutary restriction, and have been committed to the management of men without knowledge of the theory of banks, or that practical experience which might supply its place, and whose interests were sometimes promoted, or thought to be promoted, by a course certainly injurious to the community, and too probably so to the bank.

If no rational hope could be entertained, that the evils of banks would be remedied, it would behove us then to inquire whether they are outweighed by the benefits derived from those institutions; but, before we institute that comparison, we are bound to inquire how far they may be prevented by a wiser course of legislation.

CHAPTER VII.

OF BANK CHARTERS. — PRELIMINARY INQUIRIES BEFORE CHARTERS ARE GRANTED.

It is certain, that much of the mischiefs which the American community has experienced from banks is attributable to the legislatures of the several states; and that those mischiefs have often been greater, under our system of restriction, than if the banking business had been entirely free; since the banks which have been chartered have thereby acquired a credit with the public that they would have had to earn, if the field of banking had been open to the free competition of all. Let us, then, inquire, what are the duties of legislatures, in chartering banks, before they decide that those institutions should be subjected to no regulation whatever?

As the stability of a bank is the most important consideration that concerns the public, the legislature should, in granting charters, take every precaution to secure it. Before they authorize the establishment of a bank, they should be satisfied, not only that the business of the place is sufficient to require the facilities and to defray the expense of such an institution, but also that there is an adequate amount of capital that is ready to be so

invested; in a word, that there is a sufficient number both of safe borrowers and discreet lenders.

There are two descriptions of persons, who might be very desirous to see a bank established, where it may not be at all needed. They are those who expect to be employed in conducting it, and those who are anxious to become borrowers. Against their arts and representations the legislature should be on its guard, although they should have enlisted the coöperation of a few capitalists, as they are sure to do. To secure the requisite solidity, two things seem essential. One is, that the bank should have a sufficient amount of capital; and the other is, that such capital should be real, not nominal or borrowed.

The first requisite is necessary, to give the public assurance not merely of the solidity of the bank, but also that it will be conducted with skill and prudence. In general, men who have spare capital have made it by their own industry and frugality; and these qualities particularly fit them for lending the funds of the bank with discretion, and keeping its issues within the limits of prudence. The smaller the capital of a bank, the more exposed it is to embarrassment from causes that are merely local, without their being less exempt from those that are general. Thus, a panic may arise in a village, and extend no further; and the hostility of one or two individuals, which could have no influence on a bank with a large capital, may be seriously felt by a bank with a small one.

It is not easy to say what limit the legislature

should prescribe to itself, on this subject, the wants and the capacities of different parts of the country being so different; but it seems to be wise for the laws of every state to fix a minimum capital, without the possession of which no bank should be permitted to put its notes in circulation. There is, probably, no state in the union, in which any town, fairly entitled to a bank, would be deprived of one, if the minimum was fixed at $100,000; and the partial inconvenience might be more than compensated in security, (to say nothing of economy,) if it was even $200,000. Even this sum would be entirely too small to afford the requisite security in a city; but the city banks are commonly not deficient in this particular. They require other checks. It is only against the undue multiplication of banks in small towns and villages that this provision seems necessary.

But the second requisite, that its capital should be real, and be paid up in gold and silver, is of far greater importance; for this would form a salutary check to the undue multiplication of banks in cities as well as in the country, and add to the security of the large banks no less than the small ones.

The capital of nearly all the banks of the United States is, in part, nominal. It is always, by the provisions of their charters, paid up in successive instalments of 25 per cent. each, or less; and, as they commonly begin their banking operations as soon as the first instalment is paid, a considerable portion of the subsequent instalments is borrowed by the stockholders of the bank itself. It is clear,

that the capital of the bank is no more increased in this way than if it was not obtained; and that the only capital of a bank that can be efficient in advancing money to others, and in supporting the credit of its paper, is that which the stockholders have contributed from their own resources.

It is true, that those stockholders, who thus borrow money of the bank to pay up their last instalments, pay interest to the bank, like other borrowers; but then they are likely to receive back the same amount in dividends. If the dividends exceed the rate of interest, then such borrowing stockholder gains a larger share of the profits of the bank than he is fairly entitled to, at the expense of the more substantial and punctual stockholders; and if the dividends are less, then the other stockholders gain at his expense. Such loans, then, affect the interests of the stockholders among themselves, but nowise add to the resources of the bank.

It is owing, principally, to this delusive practice, that banking capital seems to be distributed so unequally through the different states, not only in proportion to their numbers, but also to their commerce and wealth; that the bank capital of Rhode Island is more than 50 per cent. greater than that of Virginia, and that of Mississippi greater than either; that of Louisiana nearly equal to that of New York, and greater than that of Massachusetts; and, lastly, that the bank capital of the district of Columbia is greater than that of North Carolina.*

* See Appendix, Note 7.

Nor does it materially vary the case, when the money that is to constitute part of the capital is borrowed from another bank. Whether such money be in specie or paper, in the same degree that it adds to the resources of one bank, it diminishes those of the other; and, at the end of sixty days, when the loan is probably repaid at the expense of the new bank, the situation of the two is precisely as if the loan had not taken place, and that much capital had not been paid.

In the mean time, the general accounts of the bank, professing to exhibit their condition, disclose nothing of these facts. The capital appears to have been paid up as well when its own paper has made the greater part of that capital, as when it was in gold and silver; as well, too, when it has been borrowed for a short time, to deceive the public with appearances, as when it is really the saving of past industry or thrift, seeking profitable investment. It is in this way that the amount of bank capital in the United States, actually paid up, is dilated to almost twice the amount of that of England, as will thus appear:

*Capital of the bank of England,	£14,553,000
†Capital of joint stock banks actually paid, ...	5,792,524
‡Capital of private banks, (estimated,)	15,825,174
	£36,170,698

* McCulloch's Com. Dict., p. 92.

† Speech of William Clay, Esq., in the English house of commons, p. 144.

‡ There are no data for ascertaining the amount of capital em-

This, at 4.61 dollars the pound sterling, (the medium between the par of gold and the par of silver,) is $166,746,917
Banking capital of the United States, 317,636,778

Apparent excess in the United States, $150,889,861

In like manner, when the item of discounts, in the general statement of the banks of the United States, seemed to show that more than 500,000,000 of dollars had been furnished by the banks, to facilitate the operations of commerce, manufactures, or agriculture, the only effect of probably much the greater part of it has been to make some additional entries in the bank leger, by which particular stockholders are charged with the money borrowed, and credited with the same money, in payment of stock.

By this practice, the public is deceived as to the real resources of banks; as, with a view to the practice, legislatures have been beguiled into granting charters where banks were not wanted, or there was not the requisite capital to create them; and unwary individuals, believing their condition to be what it professed to be, have been induced to become purchasers of stock at an advance; which they would never have done, had the real

ployed in private banking in England. But the amount of the notes they circulate is known; and, supposing that their capital bears the same relation to their circulation as is known to exist in the joint stock banks, (that is, about double,) the double of their circulation in September, 1835, which was £7,912,587, is here assumed to be their capital.

condition of such banks, and the meagreness of their real capital, been fairly disclosed.

The same practice, it seems, has been adopted in England, by the joint stock banks established in that country since the failure of so many private banks, in 1825; and it has been denounced, both in parliament, and by some of the most distinguished writers on banking,* as a most pernicious abuse, both in lessening the security of the public, and by encouraging the formation of companies for the purpose of "making a profit by jobbing in the shares." But the fact, that only a part of the stock is paid up, is there known to all, and is distinctly set forth in the prospectus that invites subscriptions. If the practice is found to be mischievous there, where the fact is or may be known to all, how much more so must it be here, where it is often studiously concealed, and where, without any purpose of concealment, the plan and operation of the banks keep it entirely out of view!

The legislatures of some of the states, aware of the mischief of creating banks with a fictitious or even an insufficient capital, have thought that they effectually guarded against the danger, by the provision, that the capital should be paid in gold and silver. But this provision is altogether inadequate to their purpose, unless they require the whole capital to be paid up at once. If the capital is paid by instalments, and the bank is allowed to begin

* See speech of Wm. Clay, Esq. Edinburgh Review. McCulloch's Com. Dict.

business and issue notes before such instalments are all paid, then the last instalments, though paid in specie, will be paid by that which is drawn from the bank.

Even a provision, that the whole capital should be paid up in gold and silver before the bank should issue a note, or make a discount, would be liable to evasion. Money might be borrowed for a short time by individuals, to complete their subscriptions, with the confident expectation of repaying it by money borrowed from the bank, as soon as it should begin to discount.

We are taught a lesson on this subject, by what has actually occurred. By the general banking law of Massachusetts, no bank is allowed to go into operation before at least 50 per cent. of its capital shall have been paid up in gold or silver, and verified by commissioners on oath; yet it appears, by the report of a committee of the senate of that state, dated Feb. 13, 1838, in the case of the Kilby bank, that this provision was evaded by special loans of specie from other banks, to be repaid as soon as the bank went into operation; and that the same mode of evasion had been generally practised by a majority of the banks chartered in that state within the last ten years; that is, ever since the law had been in operation.*

It is not enough, then, for the law to provide for the payment of the whole capital in specie, before the bank begins its operations; but the provision

* See Appendix, Note 8.

should be so framed as to increase the risk and difficulty of evasion; and, not trusting altogether to the injunctions and penalties of the law, the legislature should carefully inquire into the history and circumstances of every bank charter applied for, and should firmly refuse every such application, in which it did not clearly appear that there was sufficient capital thus seeking investment.

On this subject, there have been one or two prevalent errors, of which it is high time the people should be disabused. One of these is, that it is in the power of a bank, and one of its most useful functions, to *create* capital; and, believing this, in deciding whether a new bank would be expedient, they merely inquire whether money is wanted in a place; and, perhaps, go a step further, and ask whether it could be usefully employed. But, however these questions may be answered, they do not decide on the expediency of establishing a bank of issue, unless it further appear, that there is also spare capital, either in the place itself, or at a distance, seeking such an investment. Where such capital exists, banks that are well managed are admirably fitted for giving it activity and a more enlarged sphere of utility. They have, in this way, been of incalculable benefit to Scotland,* and to many parts of the United States; but it must be remembered, that industry and

* See Adam Smith's testimony on this subject; and it is the more to be valued, as he seems to have had no partiality for banks, in consequence of some abuses that had recently taken place in Scotland.

economy can alone create capital; and when it is thus called into existence, banks can give it its most useful direction. They can put the money of the female or the minor into the hands of the active and capable man of business; but they no more increase capital than a mill-dam increases the water. By stopping the courses of numberless petty rills, that would flow unprofitably by, they are made, in a mass, to fertilize the lands of one man, to feed the canal of another, and to turn the wheels of industry of a hundred more. But the water must be there, before all this can be done.

Another error is, the opinion, that banks have exclusive privileges, by which a few are benefited at the expense of the many; so that a business is confined to a few, which, if profitable, should be extended to all.

But it must be recollected that, in establishing a bank, the legislature do not so much confer a privilege as remove a restriction they had previously imposed. If there were no law in the way, every individual, and every combination of individuals, would be as free to use their money and credit in setting up a bank, and in issuing their notes payable to bearer, as in any other way. But the legislature, watching over the public welfare, and believing that the community would be injured by an indiscriminate exercise of this natural right, have forbidden it.* They assume that

* In many, perhaps most of the states, there are penal provisions against issuing notes payable to bearer.

many persons, taking upon them the semblance of wealth and integrity, may obtain, for a time, a false credit, by which hundreds of innocent people may be injured; and that therefore an act, which may be so extensively mischievous, shall not be exercised at all, without their special sanction. When, then, cases occur, to which the reasons of the prohibition do not apply, (that is, when persons, who afford them satisfactory evidence of their wealth and probity, seek to become bankers,) they remove the prohibition, and allow them to use their money, and the credit which is incident to it, by issuing their promissory notes to those who are willing to take them; and, at the same time, lay them under such conditions as promise the most benefit, and will best secure the public from the mischiefs that first suggested the prohibition.

But, let an exemption from a prohibition, in a case in which the reason of the prohibition does not apply, be regarded as a *privilege;* yet, similar privileges are granted and justified every day, on the ground of public benefit. If banks render to the community the important services that have been mentioned, — if they save capital, save trouble, save time to every one, and assist the government in time of need, and their mischiefs are comparatively few, and admitting of remedy, — then the same principles which justify a charter to a canal company, or a rail-road company, apply to a bank. By means of your charter, you enable them to enforce their own engagements with one another

and to the public; you enable others to litigate their rights with them, and levy executions on their property with more ease. As their purpose, which we are supposing to be some work of public utility, cannot be effected without the coöperation of many, you enable them to act in unity of purpose and of will. You confer on them such rights, and impose on them such duties, and no more, as will enable them to accomplish their object; and, while their duties are weighty and sometimes onerous responsibilities, their rights are little more than the removal of difficulties which the civil code itself had created — difficulties growing out of the proceedings of courts, the law of partnerships, and the artificial rules of property.

Supposing the charter justified by considerations of public utility,— it must be exclusive, to effect its purpose, or, at least, the charter must permit to some what the law does not permit to all. Who would be at the expense of constructing a rail-road, or of building a bridge, when the right of remuneration was not well secured? and if, in case the work should prove profitable, any one would be at liberty to place another road or bridge along side of his, and intercept his profits? This is so obviously against both justice and policy, that the legislature always secures to the first enterprise the exclusive right for a time.

In conclusion, it may be remarked, that the net profits of banks, from their "exclusive privileges," are often under legal interest; and if the average profits of all the banks, for a series of years, be

estimated, they will be found to be under, rather than over, the average profits of capital in other branches of business; there being an over-proportion of capital attracted into this employment by the arts of interested persons, the sanguine hopes of the borrowing class, and other extraneous influences.* The profits of a bank can never long exceed the average profits of capital, without successful applications for new banks; which will be sure to reduce them.

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* See Appendix.

CHAPTER VIII.

ON THE RESTRICTIONS AND REGULATIONS OF CHARTERED BANKS.

THE legislature having ascertained that the business of a place, which is seeking a new bank, will be materially aided by its establishment, and that there is unemployed capital sufficient for a bank, it should then incorporate in its charter such provisions as are likely to secure its safe and beneficial administration.

As an over-issue of paper is one of the greatest mischiefs of banks, and one to which they are most strongly tempted by the desire of increasing their profits, it would seem wise to impose a limit upon their issues, which should not, under any circumstances, be transcended.

The checks, which have been adopted by some of the state legislatures, have been to restrict the amount of their loans—the amount of their debts generally, and of their notes in circulation in particular.

But, in some of the states, the only restriction in their charters is, either that the amount of their loans shall not exceed three times the amount of their capital stock, or that their issues shall not exceed that proportion; but both these restrictions

are merely nominal; and, so far as their charters influence their management, they, under the show of imposing a restraint on banks, leave the safety of those institutions to their own discretion. It seems not improbable, that when the first charters were granted, the legislatures, being then little familiar with the subject of banking, and understanding from English writers that the bank of England considered it a rule of safety to have in its vaults one third as much specie as it had notes in circulation, they conceived that, after having required the whole capital stock to be in specie, they were adopting the same rule as the bank of England, in limiting the amount of circulation to three times the capital stock, without adverting to the fact, that, as the bank could not issue paper without at the same time issuing specie, they might reach the prescribed proportion of three times as much paper in circulation as specie in bank, before the former had even doubled their capital stock, or even before their loans, made partly in paper and partly in specie, had reached that amount. The provision, having once found its way into early charters, was afterwards copied in others, on the presumption that it had been tested by experience. It seems difficult to account, in any other way, for such a latitude of discretion given to institutions that were known to be objects of popular jealousy, and which the legislature evidently meant to place under salutary restraints.

There is no bank in the union in which the discounts and loans are three times the amount of

the capital; and, in 1837, when the issues had been greater than at any former period, in only ten of the states the discounts were more than twice the amount of the capital; and there were but nine states in which the issues and deposits together exceeded the capital.*

But, by general provisions in some of the states, and as to most of the late charters in all the states, more effectual restrictions have been introduced. By the general bank law of Massachusetts, passed in 1829, every bank established after that time is prohibited from circulating notes to more than 25 per cent. beyond its capital stock; and the debts of the bank of every kind are not to exceed twice the amount of its paid-up capital, exclusive of what it owes on account of deposits.

Mr. Gallatin† thinks that the limit of the loans of a bank to twice the amount of its capital allows a greater latitude than is consistent with safety, and the events of 1836 and 1837 give confirmation to his opinion. In a season of unwonted prosperity, when every article of exports commanded a high price abroad, and when specie was more disposed to flow into than out of the country, all the banks were tempted to extend their loans to an unprecedented amount, yet, in a majority of the states, they did not reach twice the amount of their capital. In these states, however, as well as the others, the undue extension of their loans, and,

* See Mr. Woodbury's bank report of Jan. 8, 1838.
† Gallatin on Banks and Currency, p. 66.

consequently, of their debts and issues, compelled them to suspend cash payments.

With many of the banks, especially when the legislature has taken the requisitive precautions in establishing them, the best security is perhaps to be found in their own prudence, and the lights they have drawn from their late experience; but with many others, legislative restrictions cannot be safely dispensed with; and, probably, for such, none that have been as yet mentioned are sufficient. Mr. Gallatin * further recommends a restriction on the issue of notes to two thirds of the capital. If the capital of the banks was real, and really consisted of coin, this might be restriction enough, and, perhaps, more than is necessary; but, constituted as most of these institutions really are, it would give an unsafe latitude to all that class which require restriction. It appears by Mr. Woodbury's bank report of Jan. 8, 1838,† in only eight of the states, (Delaware, Virginia, Illinois, Indiana, Ohio, New Jersey, North Carolina, and Alabama,) the notes in circulation reached half the amount of the capital stock.

The most effectual restriction would be one which should compel them to regulate their loans and issues by the amount of specie in their vaults. This is a matter of some practical difficulty, inasmuch as no course of prudence, consistent with the useful functions of a bank, could secure them from great and sudden demands of specie, by

* Gallatin on Banks and Currency, p. 66.

† Page 850.

which their quantity on hand would be reduced below the prescribed rule. But, as in that case they could restore the proportion either by a contraction of their issues, or an augmentation of their specie, or by both operations together, (and they ought to do so,) the law may require the performance of that duty in a given time. Thus, after the legislature had determined what should be the proportion between the specie and their circulation, in which deposits should be comprehended, they might provide that when, for a stated number of weeks together, or for a certain number of weeks in a stated number of months, the bank had a less proportion of specie, the profits of its loans and discounts, beyond a certain amount, should be forfeited to the state. The scale of forfeiture might be graduated according to the deficiency of specie. If, for instance, the bank were required by its charter not to extend its discounts or loans beyond twice the amount of its capital, and were also required to have one dollar in specie for every four dollars it owed on account of notes in circulation and deposits together,—then, in the same proportion that the specie in their vaults was less than one fourth of its debts, should they contract their discounts within a limited time; and, on failure to do it, the profits beyond the point of contraction should become the property of the state; and in this way, if the specie was reduced to one half of the amount prescribed, (that is, to one sixth of the debts,) and were suffered so to remain for the time stated, then all the discounts beyond the amount of the capital would be forfeited to the state.

Some penalty, too, when they fail to redeem their notes in legal coin, on application, would also be a useful provision. In some of the states, a failure in this respect by a bank produces a forfeiture of its charter. In this case, they will never stop payment so long as they have any means of paying, unless they have the sanction of the public and the legislature. It might also help to prevent their making this experiment on the public liberality, except in cases of extreme urgency, to have a general provision that their profits, during suspension, should not exceed 6 per cent., and that even that should be reduced or postponed, if the suspension exceeded twelve months.

The great additional profits made by the bank of England, during the latter part of its suspension, must have pleaded strongly with its stockholders against a return to cash payments; and the same cause was found to operate in the same way during the first suspension in the United States. In the suspension of last year, the banks have furnished no ground of complaint in this respect; but, satisfied that the pecuniary difficulties of the country were in part owing to their sharing in the general intoxication produced by the public prosperity, they, at once, and in good faith, set about contracting their issues and preparing for resumption. Such right-minded views might not always be counted on, if suspensions should become more familiar; and, at all events, the moral duty is not likely to be weakened by adding the injunctions of law.

By the general law of Massachusetts, banks are subject to an interest of 24 per cent. a year for all notes they shall refuse to pay. Perhaps a lower rate of interest would be more efficient, as more likely to be enforced. Such was the opinion of the Pennsylvania legislature, which has given an interest of 12 per cent. That interest, growing out of the late suspension, in some instances, has been demanded and paid without suit.

Among all the checks that have been devised to the imprudence of banks, there is no one of greater efficacy than giving publicity to their actual condition; and this has been a discovery of modern times, and seems to be due to the United States, or rather to the character of their political institutions. The banks of Venice and Amsterdam studiously and effectually concealed from the public a knowledge of the amount of their treasure, and of the transactions of those who managed those institutions. The bank of England followed their example, and the great rule of one third as much specie as the amount of their circulation was the inference of an industrious German writer,* deduced from facts which were of general notoriety, and was never, until lately, avowed by them, as the rule of their conduct. The same air of mystery, and aim at concealment, prevailed in the first banks of the United States. They seemed to have been thought essential to the safety of the banks. But sounder views being entertained by some of

* See Stewart's Political Economy.

our statesmen, and supported as they were by the popular jealousy that has always existed in a greater or less degree against these institutions, and which their very secrecy tended to heighten, they gradually began to lift up the veil that had hitherto concealed the condition of banks from the public eye, and at length tore it off altogether. In the first instance, the banks resisted these disclosures as fraught with danger, from popular ignorance and misapprehension; and they often resisted them successfully. But the controlling power which the legislatures exercise, both in granting charters, and in the management of some of the banks, having been partially exerted to show the condition of those banks to the people, particularly after the first suspension, without being followed by any of the apprehended mischiefs, the practice was extended, until it became general; and now nothing seems to be better established, than that, as the former mystery and secrecy of banks was the parent of fear, suspicion, and ill-will with the people, so nothing is more certain to strengthen confidence, where confidence is due, than a full and candid statement of their condition. Every one is satisfied that, while the bank has not specie enough in its vaults to redeem all its notes, it has enough to redeem all that will probably be returned to it at any one time; and, although, in an extraordinary state of things, its specie should be exhausted, still, as it has debts due from other people correspondent to its own debts, and its capital stock besides, it will eventually be able to pay off its notes.

While publicity increases the public confidence in substantial and well-managed banks, it exposes the weakness of those that are poor in means, or are ill-conducted; and thus it operates as a check to the creation of some, and to the imprudence of all. It was not, indeed, sufficient to check such imprudence in 1836, because the same delusion then possessed both the banks and the people; but it does not follow, that similar imprudence, both now, and so long as the history of the late suspension shall be recollected, would not meet with that degree of public reprehension that the banks would be obliged to respect.

They have also become fully sensible of the advantages of publicity in Great Britain, as the bank of England, since the renewal of its charter in 1833, sends in to the government weekly returns of its coin and bullion, of its circulation and deposits, and monthly abstracts of these are regularly published. Quarterly returns of the issues of the country banks are also returned and published.

As a further check to bad management of banks, and a better security to the public for an accurate knowledge of their condition, some of the states have subjected them to periodical visitations from commissioners, appointed by the state for that purpose. This policy was first adopted by New York, in 1829, by a provision in its safety-fund act, by which three commissioners are appointed, two by the banks jointly, and one by the state, to visit every bank at least once in four months, examine into its affairs, and report them to the legislature.

Since that time, the states of Maine, Connecticut, Rhode Island, and Mississippi, have also appointed bank commissioners for the same purpose. The measure seems to be one which may be productive of much benefit, without being attended with any objection; unless it should be found that it gave an influence over the banks to those who wielded the power of the state; which, in times of great party excitement, might be abused. In the states in which the policy has been tried, no complaint of such abuse has yet been made.

In many of the state banks, the state owns a part of the stock; by reason of which, it appoints a part of the directors; and this was a provision in the charters of both banks of the United States. As this portion of the directors are likely to feel an especial responsibility to the public, they afford some additional security against excessive issues. They will always incline to look more to safety than profit; and the public will be more disposed to have confidence and favor towards banks in which it has an interest, and has guardians to watch over that interest.

But this interest of the public ought not to be made the plea for giving to the state the whole power of management, by giving it the appointment of all the directors, or in a greater proportion than the interest of the state bears to the whole stock.

This objection lies to the charter of the bank of Virginia, in which the state owns one fifth of the stock; but, by the practical operation of the char-

ter, the public authorities, under the form of an election, virtually appoint all the directors. To this course, there seem to be the following objections: — It is against natural justice, that, in a partnership, the several partners should not have a voice in some proportion to their respective interests; and flagrantly so, when the proprietor of one fifth prevails against the other four fifths. It is unfavorable to the prudent management of the bank, as the self-interest of the stockholders will quicken diligence and sagacity far more than a sense of public duty is likely to do. Public sentiment, too, has an influence in appointing directors, whereby persons but little qualified for the office are often appointed. Thus, members of assembly, living in the bank district, who have been chosen for very different qualifications, and sometimes merely because their personal or moral qualities had won the regards of the majority, or because warmth of party zeal had supplied the place of every other recommendation, are generally appointed; and their wishes are consulted, in making the other appointments. This power is the more objectionable, as it is exercised without responsibility. The agent of the state, who is dependent on the legislature for his continuance in a lucrative office, will naturally accommodate himself to the wishes of the members; and the influence they have thus exercised not being visibly exerted, they are not held accountable to the public for its abuse, except in such flagrant cases as will be of very rare occurrence; and, although the

effect may not be to appoint directors who are confessedly and utterly disqualified, its tendency is certainly to prevent the appointment of the best, or, at least, to make fit appointments a matter of chance. It has been owing to this feature in the charters of the Virginia banks,* that the most decided instances of their mal-administration may be traced; of their imprudent and excessive loans to individuals; and of their over-issues, when the eagerness for speculation was the strongest, and most required a check.

To these objections it may be replied, that the banks of Virginia have been as prudently conducted as any other. They have, indeed, twice suspended cash payments; but it was at times when nearly all the banks in the United States had done so. They have, occasionally, lost by bad debts; but so have all the other banks. Even the charge of favoring particular individuals, and persons of great popularity, has been often brought against other institutions, whose directors were chosen principally or wholly by the stockholders.

All this may be very true, and yet furnish no satisfactory answer to the objections. It is a proof of lucky escape, rather than that there was no danger. The hazards of the voyage may have been great, and have justly entitled the insurer to a high premium, though the vessel has arrived safe. Besides, there may have been counterac-

* The charters of the two principal banks are, in this respect, somewhat different. In the bank of Virginia, the state appoints all the directors; in the Farmers' bank, only a majority.

tions that were temporary. But it is not conceded that there has been no practical mischief. That has been great, frequent, and still continues to operate. As to similar mischiefs in other banks, they may have defects in their constitution from which that of the Virginia banks are free; and their abuses and losses may, in like manner, be traced to the defects in their respective charters. As a general rule, no one is likely to take such good care of money, as he to whom it belongs.

So long as the use of money is considered an advantage, and especially so long as banks lend at less than the market rate of interest, it will be desirable to secure, as far as practicable, as impartial a distribution of their favors as is consistent with their interest and safety. To prevent favoritism, therefore, and a particular party or clique from obtaining an exclusive control over the bank, a certain proportion of the bank directors should be changed every year. Such a provision is now contained in most bank charters; but the change is too small to be of much efficacy. They who go out are commonly those who have the least influence, and for whom, of course, the rule was least made. On this account, it would be better that no one, except the president, should be a director more than so many consecutive years.

It would also have often proved a very salutary provision, if the loans to the directors had been limited to a fixed sum. It would seem to be the safest course to fix the limit very low; and when a director wants a larger sum, he can then resign.

One of the most effectual means of securing impartiality in banks, and of lessening their power, is, to increase their number whenever the business and capital of a place will justify it. But, after the salutary effects of competition are obtained, the farther multiplication of banks is injurious; both by increasing the expense of the banking machinery to the community, and by lessening the security of the individual banks. In determining how far they will increase the number, the legislature will have, as on very many other occasions, to compromise between conflicting considerations, and take the course that promises the greatest proportion of good, and the smallest chance of evil.

To increase the number of banks unnecessarily is liable to the same objection as to allow a new rail-road or canal beside an old one. The profits of the business may bear division; but, what the new company gains, the old one loses; and as to the public, supposing the means of transport not improved, the cost of the new work is so much of the national capital wasted. If the wealth of a community consists in the wealth of its members, and every one has an interest in increasing the sum of that wealth, then it is certainly better that one set of men should obtain an extra profit, than that all should incur a loss. Besides, the smaller the number of banks, the more diffusive is their circulation, and the greater their safety, with the same amount of profit.

On the other hand, the public has an interest

that the banking business should not be concentrated in a single institution; not only that the benefits of competition should be secured to the public, but also because they furnish, or may be made to furnish, one of the most effectual checks to each other's imprudence. In the same degree that the profits of one bank are increased by an extensive circulation, those of its neighbors are diminished; and as, when the issues of any one are excessive, most of the excess finds its way into other banks, they may, by frequent settlements with one another, effectually curb the disposition of any part to appropriate to itself more than its proportion of the circulation.

When these benefits of competition and of mutual restraint are secured, it will greatly tend to prevent the farther multiplication of banks, as well as the odium of excessive profits, to make the state a sharer in their gains, to some extent. This may be effected in various ways. The state may own a part of the stock; for which, instead of advancing the money, it may agree to pay a moderate interest; and, in such case, its profit will be the excess of the dividends beyond the interest. This was the case with the banks of the United States, and also with the principal banks of Virginia. Or, the bank may be required to pay a certain sum for its charter, — generally in instalments. This was also done by the bank of the United States to the general government; and its successor has since done the same to the state of Pennsylvania. Or, it may be subjected to a tax on its capital, as are

the banks of Massachusetts. Or it may be required to pay a proportion of its profits. As all these modes lessen the net profits of banks, they tend to discourage the application for charters, and so far to lessen the cost of this instrument of commerce, without at all impairing its safety.

A further benefit may be derived from making the state a sharer in their dividends, in this way. If the state should be entitled to share in the profits only after they exceeded 6 per cent.; and if, moreover, the share of the state should be in a greater ratio, as the excess increased, it would lessen, and might entirely remove, their strongest inducement to excessive issues. In this way, the advantages of economy, safety, competition, and moderate profits, may be united.

Among the regulations of banks, that may be considered conducive to their utility, and also to their eventual safety, is, the payment of interest on deposits. The interest they pay will, of course, be at a lower rate than they receive. In the Scotch banks, the difference is commonly from one to two per cent. This practice has been found to produce an admirable effect on the poor and working classes in Scotland, in encouraging industry and economy; and, long before the establishment of savings or providential banks, the Scotch banks had produced all the beneficial effects now generally imputed to those institutions.

But they also contribute to the solidity of the banks themselves. Their deposits will thus be manifestly larger than if no interest was paid. No

one will keep money in his possession, or withdraw it from the bank, except his occasions make it necessary; and, though withdrawn by one person, it is often immediately re-deposited by him who received it. Hence, the sum ordinarily deposited in the Scotch banks has been estimated to amount to about £24,000,000 sterling. Though the payment of interest must make a considerable deduction from the profits of banks, in proportion to its extent, yet, on this very account, there will be a smaller number of banks; and in the consequent diminished competition and greater extent of business, they will find compensation for the reduced rate of profit. If the practice of paying interest had not prevailed in Scotland, the number of their banks might have been, perhaps, as numerous, in proportion to its population, or nearly so, as in England. With the present number of banks in the latter country, they could not afford to allow interest generally on their deposits. But, in the same proportion that the number of banks is reduced, the greater is the economy to the community in this instrument of commerce, and the greater is the safety of the banks themselves. The payment of interest to the depositors will have the same salutary effect, in short, that has been imputed to the payment of a bonus to the state.*

We have seen that one of the inconveniences of banks, and the only one that seems inseparable from them, is, that, when the course of foreign

* See a further view of this subject in chapter XI.

trade expels specie from the country, they make the deficiency of money greater than if the circulation consisted altogether of the precious metals. Now, although this evil may not admit of a complete remedy, it does admit of great mitigation in this way. If the banks be prohibited from issuing small notes, their place will be filled up with specie; which will thus make a reservoir, on which the banks can draw when their coffers have been drained for foreign export.

To this extent, indeed, the advantage of cheapness, in substituting paper for gold and silver, would be diminished; but we might be content to give up something in economy, in exchange for greater security against the loss, the embarrassments, and the stagnation of business, arising from a deficient circulation. In other respects, the change would produce as much convenience as it would take away. A silver dollar is more convenient than a dollar bank note; and, if gold currency could make a part of the circulation, half eagles are quite as convenient as notes of five and ten dollars. If inferior in some particulars, they are superior in others. It is, however, very improbable, that the states will be ever induced to give up the use of ten dollar bills, or even of fives; and, unless gold should constitute a fair proportion of our currency, they must be considered as more convenient than the silver they represent, in every respect but in that of lessening the evil of a great afflux of specie.

CHAPTER IX.

PARTICULAR REGULATIONS OF CHARTERED BANKS, AND UNCHARTERED BANKS. — SAFETY-FUND. — SECURITY FOR NOTES ISSUED.

One of the expedients which has been adopted to secure the public against loss from banks, is the safety-fund system of New York. By this system, every bank then in existence, acceding to the plan, and all banks thereafter created, were required to set apart a small portion of their dividends, (half of one per cent. of their capital,) to constitute a general fund for the payment of the debts, except the capital of such banks as should become insolvent; which fund, when reduced, was to be kept up in the same way. The act also makes provision for the disposition of the effects of an insolvent bank by the court of chancery, and for the appointment of bank commissioners, to visit the banks subject to the act, and to arrest the business of any bank it shall discover to be insolvent, by an application to the court of chancery. The issues of the banks are limited to twice the amount of their capital, and their loans and discounts to twice and a half the same amount.

The considerations which recommended the plan to the legislature were, that, in the first place,

the public have an additional security against loss to the extent of the fund; in the next, as the fund is the property of the whole, and it may be endangered by the conduct of any, every bank has an interest in the prudence and good management of every other; and by the visitations provided for by the act, and which can be increased on application of any three banks, they have sufficient means to learn the actual condition of each other.

On the other hand, the plan was objected to, as unjust, in making the funds of well-managed banks responsible for the losses sustained by the imprudent and ill-managed; and that it would be more likely to produce their mutual forbearance, than to increase their vigilant jealousy of each other's dealings, by which it would be favorable to over-issues, the chief source of danger. That the fund might be sufficient to indemnify the creditors of some two or three banks of small capital, but would be totally inadequate to make good the losses that might arise from the failure of a bank of large capital, or of many small ones, in any sudden and general embarrassment of the money market; and even where it might be adequate, it would be quite as fruitful of litigation as relief.

Without stopping to weigh these opposite arguments, for and against the system, it may be remarked, as affording some evidence against its efficacy, that though several states have adopted that provision of the law of New York, by which bank commissioners are appointed to visit the banks periodically, and report their condition, not

one has adopted the plan of a mutual safety-fund. Nor, on comparing their exhibits, do we see any evidence of greater caution or forbearance, either in the amount of their loans, compared with that of their capital, or the amount of their circulation, compared with that of their specie. If the safety-fund banks of New York be compared with the banks of Pennsylvania, on the 1st of January, 1837, then, while the former had a somewhat larger proportion of specie, (the safety-fund banks having something less than one fourth of its circulation, and the banks of Pennsylvania something less,) in the extent of its loans, the advantage of moderation was greatly in favor of the banks of Pennsylvania. So, if we leave out the city banks of New York, and compare the rest of the safety-fund banks with those of Rhode Island, we find that, as to discounts, the latter has been more moderate, and as to circulation, equal; and, lastly, if we compare the ninety safety-fund banks with the eight not subject to the law, we find, that, although the loans of the latter are greater for their capital, the proportion of their specie to their circulation exceeds that of the safety-fund banks in a yet greater ratio, as may be seen by the following table, made up from Mr. Woodbury's report of Jan. 1838.

Banks.	Capital.	Loans.	Proportion of Loans to Capital.	Specie.	Circulation.	Proportion of Specie to Circulation.
90 N. York safety fund	32,501,460	67,261,168	206 per cent.	5,562,367	22,065,123	25 per cent.
8 not subject to the law,	4,600,000	12,052,020	265 "	994,653	2,132,877	45 2-3 "
Penn. banks,	58,570,338	86,471,023	147 "	5,752,439	25,241,982	22 3-4 "
N. Y. country banks,	15,890,260	30,818,706	193 "	1,707,915	13,909,240	13 "
R. I. banks,	9,837,171	13,401,344	136 "	243,482	1,864,132	13 "

The system, too, had no influenee in preventing the general suspension of cash payments, or even delaying it; for it so happened that New York was the first state that suspended.*

Another expedient which has been viewed with favor, both in this country and England, for giving stability to banks of circulation, is, to require every bank to vest a part of its capital in public stock, or, in lieu of that, in mortgages, which, being of permanent value, would secure the creditors of the bank from loss under any supposable state of pecuniary embarrassment in the country, or of imprudence in the bank. And the state of New York has lately passed a general banking law, by which the ordinary privileges of a corporation are extended to any voluntary association of individuals, who are permitted to carry on the business of banking, and to issue notes to the extent that they have previously deposited stock, or mortgages, with the comptroller of the state.

Assuredly, the less the banks lend, the less is their risk of loss; and if they keep a part of their capital employed, not in the business of banking, but invested in the public funds, or joint-stock companies, or land, they are, to that extent, exempt from the hazards of banking, but to the same extent they must forego its profits, and substitute the dividends or profits derived from these permanent investments in their stead.

* It is but justice to add, that it was also the first state which resumed specie payments.

This exchange may give the public additional security, or it may not. If the stock purchased was part of a public debt of a government faithful to its engagements, it would afford higher security than any loans on personal credit; but there may be no national debt, as is now the case with the United States, and there may be no public debt in the state where the bank is to be established. If, then, the money be vested in the stock of canal, rail-road, insurance, or other joint-stock companies, as has been sometimes proposed, there would be the same uncertainty of profit, and the same hazards encountered as in the ordinary business of banking. The stockholders would certainly prefer employing their capital in discounting such paper as they approved, both for profit and safety, to vesting it in the stock of a company, over whose management they had no control; and to the creditors of the bank, the security would be the same.

Let us, however, suppose that stock issued by the states could be procured, although the bank may be somewhat more safe, yet as its profits will be proportionally diminished, it may be doubted whether capitalists will be disposed to advance their money for a bank, in which, to give greater security to the public, their means of profit are diminished, and their hazard of loss is increased. Let us see the operation of a bank on the plan proposed in New York.

We will suppose an association formed for the establishment of a bank with a capital of 2,000,000 dollars, for the whole of which the members

must provide approved stock of the state to the same amount. ' As this is taken at its market value, it is the same to the proprietors as furnishing so much cash. For this stock they are entitled to receive notes for circulation to the same amount of the comptroller of the state.

But they must also provide a stock of specie. The law requires that the bank shall have in specie not less than one eighth part of its notes in circulation. Besides, they cannot get their notes into circulation without paying away a certain proportion of specie. From the moment they begin to discount, a part of their notes will be returned to be converted into cash. What that proportion will be, nothing but experiment can determine. Let us, however, suppose that, for every four dollars in paper, one in silver has been required. Then, to have lent out the $2,000,000, the sum of $500,000 was required in specie, to which must be added one eighth of the notes issued, or $250,000, to be retained in their vaults, agreeably to the requisition of the law. In that case, their profits would be as follows:

Interest on $2,000,000 stock, at 5 per ct.	$100,000
Dr. on $2,500,000, discounted at 6 per ct.	$150,000
	$250,000

Which, on $2,000,000 stock and $750,000 specie, is something more than 9 per cent., from which if we deduct 1½ per cent. for expenses, would leave 7½ per cent. for the net profit on the whole capital invested. The expenses, it must, however, be

remembered, will be greater than in an ordinary bank, on account of its deposit stock, both for legal advice, and in collecting the interest.

But, if the proportion of specie required by the bank should exceed what has been supposed, as it probably would, the dividends would be proportionally diminished. It must be recollected, that the means of circulating the notes have not been at all aided by the stock, except so far as, by increasing the public confidence, it may have extended their circulation. But this effect might be insignificant, and could not be much. Bank notes do not circulate at all, unless the public have entire confidence in the solvency of the bank that issued them; but, whatever may be the confidence, they will still be converted into specie for the various purposes of being sent, or taken to a distance, of being wrought into plate and jewelry, and of being placed in another bank. It is then the $750,000 of specie, in the case supposed, which has put and keeps in circulation the notes. This was the real banking capital. But, to suppose that this sum would be adequate to loans or discounts for $2,500,000, or more than three times its amount, is against all experience. It might not be sufficient for more than two thirds of that amount; of course, to put the whole $2,000,000 of notes into circulation, a much larger amount of specie will be required.

Nor is this all. The proportion of 12½ per cent. of the notes in circulation for the specie — the

minimum required by the law — although it might be sufficient for country banks in prosperous times, is not enough for them in ordinary times, and not enough for city banks at any time. The banks of the city of New York, on the 1st of January, 1837, when their loans were unusually great, had $3,854,453 in specie, to a circulation of $8,155,883; that is, 47 per cent., nearly four times as much as we have supposed. To be prepared, then, for the smallest fluctuations in the money market, the bank would find it necessary to increase the amount of its specie, much above 12½ per cent., and, if it should resort to the sale of its stock, in times of emergency, the same pressure for money which has driven them to this expedient will lower the market value of stock, and they may lose in one sale the amount of seven years' dividends. And, so far as real estate is substituted, the hazards of loss, as well as the expense of management, will be greatly enhanced; so that the plan does not seem calculated to invite prudent and substantial capitalists, who have no other purpose to serve than to make safe and profitable investments; in which case, the public must eventually find its best reliance is on a well-organized bank, with a capital of gold and silver, placed under the management of cautious, judicious, and experienced men.

Of a similar character to the deposit of stock, as affording additional security to the public, is the expedient of making the individual stockholders liable in their private capacities for the debts of

the bank, in case it should prove insolvent; and some of the bank charters in the United States contain a provision for a general, and some for a special, liability. But, as such a provision would have the obvious tendency to prevent that class of men from vesting their capital in banks who are best qualified to manage them — that is, men of solid wealth and great prudence — the public would be likely to lose more by such exclusion than they would gain. It would have the effect of consigning the business of banking to the sanguine, the adventurous, and the inexperienced.

These superadded securities do not seem at all necessary, where the other legislative precautions have been attended to; and the history of banking in these states, for the last thirty years, warrants us in believing that, if the legislatures of the states would faithfully discharge their duty when establishing banks, we might have the benefit of these very useful instruments of commerce and labor-saving institutions, with as little alloy as is consistent with any human contrivance; and, above all, that their safety would be beyond the reach of hazard. The legislative precautions relied on in the preceding pages will be here recapitulated.

1. To establish no bank without a respectable capital, and without satisfactory evidence that the business of the place requires the aid of a bank, and that there is a sufficient capital seeking such investment.

2. To require the whole capital to be paid up

before the bank goes into operation, and to be in gold and silver.

3. To limit the amount of the bank's loans — its debts — and the proportion of its circulation to its specie.

4. To prohibit the circulation of small notes.

5. To provide for frequent publications of its condition, verified on oath, and to subject it to periodical visitations by bank commissioners.

6. To subject it to penalties for refusing to redeem its notes, by a high interest, and a diminution or suspension of its dividends.

7. To make great annual changes in the directors, to allow none to hold the office permanently, and to limit the amount of their credit with the bank.

8. To allow the principal share of the management to the stockholders.

9. To make the public a sharer in the profits of the bank.

10. To limit the duration of its charter to a reasonable term.

11. And, lastly, whenever the business of a place will justify it, to divide it between two or more banks, rather than to give one a monopoly.

With whatever care the charter of a bank may be framed, it should not be perpetual, nor extend to a very long term. Policy would seem to recommend that it should last long enough for the bank to acquire stability, and the public to acquire confidence; but not long enough to prevent the legis-

lature from profiting by experience, to correct its former errors, and supply its omissions. The rapid changes which are ever taking place in our country, and the new light that time is ever casting on the theory of banks, suggest further reasons why bank charters should be subjected to periodical revision after no very long term. Ten and twenty years seem to be the extremes which they should not transcend either way.

CHAPTER X.

BANKS OF DEPOSIT COMPARED WITH BANKS OF CIRCULATION.

But, since banks require so much regulation, to insure their safety, and legislatures, judging from all past experience, are so likely to mistake their duties in this particular, or to neglect them, some have thought that it would be better to do without such regulation altogether; that, by means of a currency wholly metallic, although we might appear to travel the road to wealth more slowly, we should travel it more steadily and safely; and that, in thus avoiding the dangers of banks of circulation, we might secure to ourselves their chief benefits by banks of deposit, and the bills of exchange and other negotiable paper of private bankers.

To this it may be replied, in the first place, that, under a system of banking confessedly defective, and susceptible of great improvement, the public does not sustain loss from one bank in a hundred, in a year; and to suppose that these partial and occasional mischiefs should induce the public to forego their benefits, is like supposing that men will forbear to ride, because now and then a horse runs away with his rider, or falls with him, and makes him a cripple. And in the same way that

steamboats continue to ply on the Mississippi, notwithstanding the disastrous explosions that have occurred there, and no one thinks of returning to the keel-boats by which they once carried on the commerce of the river without danger; so will commercial communities continue to avail themselves of the facilities afforded by banks, in spite of their occasional failure, and other concomitant evils.

How far these facilities may be afforded by banks of deposit and private bankers, we will now examine.

The advantages of mere banks of deposit are these: — They, in common with banks of circulation, save to the community the trouble of counting, weighing, and assaying coin, of keeping it secure from robbery and other accident, and, by means of simple transfers on their books, on a written order, correspondent to the checks in ordinary use, they effect a great saving of time, in making payments.

In affording these benefits of a paper circulation, they are exempt from its principal inconveniences. They never can occasion the suspension of cash payments, nor those great and sudden fluctuations of currency, which, whether of excess or deficiency, are so pernicious; and, whenever the course of foreign trade tends to expel the precious metals from the country, the evil is not aggravated by banks of deposit, as it is by banks of circulation.

They are, on the other hand, inferior to banks of circulation in the following particulars:

First, — they do not economize in the use of the precious metals, like banks of circulation, — the same amount of those metals being required as though the banks did not exist. We have seen that the use of bank notes as a currency now saves to the United States a capital of at least 140,000,000, which has been diverted to other objects.

This advantage, according to the views that have been taken in the preceding pages, is the greater in this country, from two circumstances. One is, its inadequate supply of currency, in consequence of its rapid growth, — the supply being regulated by the *previous* demand, which is always inferior to the *existing* demand. The other is, the great variations in the demand for money, in consequence of the greater fluctuations of price, to which their staple commodities are subject. While the merchandise which constitutes the materials both of foreign and interior traffic in Europe, with the single exception of grain, seldom varies more than 10 or 15 per cent., our cotton and tobacco occasionally undergo sudden changes of from 50 to 100 per cent.

Secondly, — the transfers on the books of banks of deposit are less convenient than the notes of a bank of issue. The latter are passed simply by delivery; but the former require a written order from every one who uses them in making a payment. They are therefore chiefly useful to commercial men and to capitalists. In the bank of Amsterdam, as every payment of bank money was made by a transfer at the bank, such money

was not as convenient as the ordinary checks in our banks, which are payable to bearer, and, of course, pass by delivery. The transfers of bank money might, indeed, have been transferred in like manner; but, in that case, the bank would have lost the small sum it received on each transfer; which was one of the sources of its gains. If, however, those transfers had, like the checks of modern banks, passed by delivery, they would not have been as fitted for circulation as bank notes, which, being of various convenient amounts, can be adapted to any payment. If the bank money of Amsterdam had been represented by a visible sign, like a bank note, which had also passed by delivery, it scarcely can be doubted, that, finding the convenience of such paper, the bank of deposit would have gradually become a bank of circulation.

Thirdly, — banks of deposit also have their peculiar dangers, by which the security they promise may be destroyed. Though, when such banks are first established, and for many years afterwards, the money deposited with them may be faithfully kept, and only paid out as it is demanded by its proprietors, yet, when it is found that, after satisfying these demands, there is always a large sum on hand untouched, the temptation to make use of this idle capital, and to make it profitable, will be very great, and may be too strong to be resisted. Such is the history of the bank of Amsterdam. Coin to the amount of more than 4,000,000 of dollars was secretly withdrawn from

its vaults, in the confidence that it would not be known, and lent to the government, to the corporation of Amsterdam, and to the East India Company. Notwithstanding which, four new burgomasters, every year, went through the formality of counting the money, of swearing that the whole sum due to its creditors was in the vaults of the bank, and that they would faithfully deliver it over to their successors. Those, then, who were, year after year, privy to this fraud on the public, for near half a century, were the four principal magistrates of the second most commercial city in the world.

Without doubt, other and better guards and defences may be devised; but what scheme could human ingenuity invent, that human ingenuity would not find means to evade, if so disposed? Agents must be employed; and some of them, at some time or other, might violate their duty, under the very powerful temptations to which such large accumulations of unemployed treasure would expose them.

Let us, however, suppose that the temptation was resisted by individuals, and that men could every where, and at all times, be found, to keep the treasure confided to them untouched; is it certain that it would always be respected by the legislatures of the several states in which it was deposited? — that, when they found, after the experience of forty or fifty years, or even less, that credits, in a bank of deposits, were taken as cash, and were, in general, preferred to cash, they would

not, in a season of national difficulty, or even of great commercial embarrassment, be induced to use those credits, or authorize the banks to use them, so as to increase the currency, as a resource against the evil of the moment? nay, seize upon, or tax, or borrow some of the hoard, which, they would say, might as well be returned to the mines from which it had been extracted, as to lie forever hid in the vaults of a bank? Laws but reflect the passions and feelings of men; and who can doubt, if there had been banks of deposit in the United States, that the general government and the states would, during the last war, when the difficulty of raising money for national defence was most seriously felt, have either borrowed the gold and silver, or authorized the issue of notes on its credit? And whenever either expedient is resorted to, the bank of deposit becomes a bank of circulation.

Fourthly, — the profits afforded by banks of deposit are so moderate, — they neither using their capital, nor deriving interest from their credit, — that it is only in large cities, and places of great trade, that they could have sufficient business to defray their expense. The accommodation, then, which such banks could afford, would be denied to all smaller communities.

Fifthly, — if there were no other chartered or joint-stock banks permitted by law than banks of deposit, then private banking would produce all the mischiefs of banks of circulation, in an aggravated form.

After a nation has made much progress in the

accumulation of wealth, and in the pursuits of industry and commerce, the precious metals, we have seen, gradually find substitutes in paper credit, as they had originally superseded barter. The large amount of values, gradually increased by each succeeding generation, that are then transferred from hand to hand, would require great masses of gold and silver; which, to transport from place to place, to count, weigh, and assay, would be a heavy tax on the time of the proprietors, — to say nothing of the expense. They therefore, to save this labor and expense, have invented such signs or representatives of those metals as bills of exchange, bankers' certificates, and bank notes — paper credit, in short, which is made to perform all the functions of currency. This substitute for gold and silver will be certain to exist, in some shape or other, after a nation has become opulent and commercial; and it will be used not merely to the extent of the gold and silver that would have circulated in the country, but to a much greater extent, by means of the drafts, promissory notes, or other negotiable paper, of private bankers.

As soon as a banker of great capital and high credit finds that his paper is generally current, from its greater convenience than coin for many purposes, he avails himself of the circumstance, to extend its circulation, and thus to derive the same profit from his credit as his capital; nor could the circulation of such paper be prevented but by prohibitions that would strike at the root of all com-

mercial credit whatever. So far, then, as paper currency has an advantage over gold and silver, and is fitted to supersede them, it will thus be furnished by private bankers, where there are no incorporated banks of circulation. The process here described may be very slow in some countries; but in those which, like the United States, have once been familiar with a convertible paper currency, and by that familiarity have been taught to know all its convenience, and to disregard its risks, the paper of private bankers would obtain circulation immediately, if our banking corporations were abolished.

Supposing, then, the currency which is now supplied by joint-stock and chartered banks to be supplied by single bankers and capitalists; in what respect is the public a gainer by the exchange? We have the means of answering this question, by adverting to the state of things in England (where private banking prevails) in 1825; when the public distress, caused by the failure of about eighty of these banks, exceeded any thing (it was affirmed in parliament) which had occurred in Europe since the failure of the Mississippi bank in France, about a century before. The sufferings of no part of our community, from the failure or even general suspension of banks, have ever approached to any thing like what were then experienced in England; and it was the lesson then taught the nation, which induced it to change its banking system, and to erect joint-stock banks, such as exist in this country, as safer and better than private banking.

Banks formed by large associations of individuals, besides the probability of their greater wealth and stability, can be subjected to a system of regulation, of inspection, and control, that would be impracticable with private bankers. No one would think of extending to these the supervision which is now exercised by bank commissioners, in some of the states; and, though it were, it would be far more easily evaded. Nor can chartered banks, (if the legislatures exercise but ordinary prudence,) to much extent, entail on the community the evil consequences of their own bankruptcy. The speculations which are so feasible to an individual banker, and to which he is so strongly incited by the facility afforded by the credit of his paper, and by the gain being exclusively his own, are impracticable to a bank. There is far less temptation; and to do it with secrecy and impunity is impossible.

It will, then, always happen, where there are private bankers, whose paper obtains credit and currency, that some of them will distend that credit until it bursts; and then the evil, great as it is, will not be confined to their creditors, but it brings the paper of other bankers into suspicion, involves some in the same common ruin, and, for a time, embarrasses the operations of all.

If such would be the result of banks of deposit; if they will not supersede banks of issue, but merely substitute private bankers to chartered banks; and if the latter are exempt from chances of failure to which the former are exposed, — it

conclusively follows, that our present system is better than the one which some have recommended in its stead.

Nor can it be supposed, that the bills of exchange or drafts of private bankers will answer all the purposes of bank notes, for safety and facility of transport; as it is known, that those expedients often subject the traveller to charges which are sometimes heavy, besides the trouble of compelling him to betake himself to a banker, in every town he passes through; whereas, if he has the paper of a bank in high credit, this trouble and expense is saved. Private bankers may, indeed, be very useful where there are no banks, whether such bankers issue notes or not; but their drafts would commonly prove a poor substitute, in this country, for the notes of an established bank in good credit.

CHAPTER XI.

UNRESTRICTED BANKING AND CHARTERED BANKS COMPARED.

But some, who are entirely satisfied of the benefits of banks of circulation, think those benefits can be best attained by leaving the banking business altogether unrestricted. Perceiving the great advantages of freedom in commerce, and in the employments of industry and skill generally, they believe it would prove equally beneficial in banking. They maintain that, if the business be left open to the free competition of individuals and associations, the public will be better supplied with banks, precisely as they are with mills, ships, manufactories, and every thing else. Banking will then obtain its full share of capital, from which it is now partially excluded by legislative restrictions, and it will obtain no more than its share, as capital will take this direction, just as far as it can be used more productively to its proprietors, and no farther.

But while, as a general rule of policy, the public is supplied with better articles on better terms, where the supply is left to the unrestricted competition of individuals, yet to this rule there are some exceptions, which derive their authority from

the same consideration of public utility as the rule itself. Thus, in any supposable system of free trade, every one is required to use the same measures of quantity that the laws have prescribed; many articles must be submitted to official inspection before they can be vended in open market; and some branches of industry are subjected to taxes from which others are free. No government has ever yet allowed its citzens to coin gold and silver at pleasure. They all, too, occasionally grant an exclusive right to particular individuals or companies, to build a bridge, keep a ferry, or construct a road, on the ground that the public will be thereby better accommodated with these useful works, than if they were left open to the voluntary enterprise and free competition of all. The question, then, still recurs, — does the case of banks of issue come within the rule or the exceptions? Let us bring it to the test of reason, founded on experience.

There are some points of difference, between banking and other species of trade, that have an influence on this question. In the latter, every trader seeks to extend his business and his profits, and one of the surest means of effecting this object is to improve in the quality and cheapness of his products. In this, his interest is identical with that of the public. The bank, too, has a like interest in the extension of its business; but the public is not in like manner benefited by its extension. They, on the contrary, may be injured by his success, as certainly as by his failure. The

excessive issues which have enriched a bank may be very injurious to the community. Self-interest has not, therefore, the same conservative power in the case of banks that it has in other branches of trade.

When, moreover, the creditors of a trader lose by his bankruptcy, they, for the most part, have received some compensation in their previous dealings, or if they have not, they have voluntarily incurred the hazard of giving credit. But, in the case of the failure of a bank, whose paper has constituted a part of the currency of the country, many of its creditors have had no sort of dealing with it, and have not voluntarily given it credit. They have taken its paper because they found it current, and because, perhaps, they must have taken that or nothing. The prudence which may protect one in his ordinary mercantile transactions, may not avail him here. The bank notes are not, indeed, a legal tender, but he is practically obliged to receive what other people agree to consider as money.

There is yet another point of difference. The failure of one merchant, or tradesman, does not affect other merchants, or tradesmen, who have had no dealings with them; but the failure of a bank whose paper has had much circulation, affects the credit, for a longer or shorter time, of all other bank, paper, and thus injures not only the banks, but the holders of their notes, and impairs the usefulness of paper circulation. It is not improbable that the failure of Law's Mississippi Bank in France, and

the wide-spread mischief it produced, caused the deep-rooted prejudice in that country against banks, which it required more than a century to subdue, and which is not yet eradicated.

On these accounts, the public has an interest in the stability of banks, which it does not have in the solvency of ordinary traders; and it is therefore justified in laying them under such restrictions as will best insure that stability. It was on this ground, that congress, in conformity with the public sentiment, lately subjected steamboats to such restrictions and regulations as seemed most likely to render them safe, and which the self-interest of competitors had not been found sufficient to secure.

On this subject Adam Smith well remarks, "To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum, whether great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbors are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law, not to infringe, but to support. Such regulations may, no doubt, be considered as, in some respects, a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments — of the most free, as well as of the most despotical. The obligation of building party walls, in order to

prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed."

Let us now consider the effects of unrestricted banking more in detail. If all the legal restraints which at present exist against the creation of banks of issue were abolished, the natural and probable effects would every where be an increase in the number of banks, and a further investment of capital in the business of banking. The greater competition among the banks, which would thence arise, would produce an extension of loans to the amount of the increase of capital, but would also tend to produce a further accommodation to borrowers, either in the amount lent, or in the time for which it was lent, or in the rate of interest, or as to the individuals themselves to whom loans were granted. In some one or more of these ways, and, probably, in all, the profits of bank capital would decrease, until they reached the general average of other employments exposed to the same risks.

So far as the change in the law had the effect of giving employment to idle capital, it would benefit both the class of lenders, and that of borrowers; it would add to production, and thus benefit the whole community. It is not, however, reasonable to suppose, it could have much effect in that way. Money naturally seeks, and is sure to find, means of profitable investment. It may always be thus vested in joint-stock companies, or

in private loans. Nor must it be supposed that any large part of the deposits in the banks lie there for want of means of profitable investment. They consist principally of the money wanted for the purposes of daily consumption, or the occasions of commerce; and such part as is intended for permanent investment is merely awaiting a choice of modes, and does not wait long.

So far as the change has diverted capital from other employments to that of banking, as it has probably passed from a less productive to a more productive employment, it would be so far beneficial both to the proprietors and to the community.

And, lastly, so far as the change has increased the accommodations to the borrowers beyond the addition made to the banking capital, that is to say, by the extension of bank credit, it may be advantageous to the community, or it may not. Supposing the additional loans to have been made to the prudent, the judicious, or even the fortunate, they would be beneficial; but if the increased competition of the banks should have the effect, as we have often seen, of nourishing a spirit of speculation and over-trading, the wealth of the community would probably be more impaired than augmented. Should the number of banks be also increased, the additional cost of the banking machinery would be a clear loss to the community.

Let us, however, suppose that the sum of direct gains would exceed that of losses; yet it must be recollected, that a part of these gains is at the expense of the safety of the banks. To the same

extent that the same amount of capital is distributed among a greater number of banks, or that the loans are extended in proportion to the capital, is their stability put to hazard, and thus the loss that would eventually accrue from the failure of banks is to be added to that which would arise from over-trading. The additional profit, then, is dubious; and, supposing it certain, the public would make a bad exchange in commuting security for profit.

Experience furnishes us with much to confirm these views. In perhaps every instance of the failure of a bank, we may trace the cause to some defect in its organization, or to some mismanagement that prudent legislation would have prevented. The failing banks have either had an insignificant or a fictitious capital; they have not been sufficiently restricted in their loans, or their issues; their affairs have not been subjected to official inspection, or even to the public scrutiny.

It will also be found that, in those states in which the banking business has been carried to the greatest extreme, in proportion to their population and trade, bank failures have been the most frequent.

The tables exhibited by Mr. Gallatin, in his Essay on Currency and Banks, may seem at first to furnish evidence to contradict this position. Thus, it appears that, in 1830, New England, with a population of less that two millions, (1,955,207,) and a bank capital of $34,505,269, equal to more than $17 to each person, has had twenty bank

failures; whilst the middle states, including the district of Columbia, with a population of 4,151,286, and a bank capital of $39,523,260, (equal to $9 to each person,) have had forty-seven bank failures; and the four southern states, with a population of 3,047,400, and a bank capital of $14,125,129, (equal to less than $5 to each person,) have had fifteen bank failures; so that the middle states, with little more than half the relative amount of bank capital of the New England states, have had more than twice as many bank failures; and the southern states, with not one third of the bank capital of New England, have had three fourths as many bank failures.

But it does not follow, because an amount of banking capital of 39,000,000 for the middle states was less than that of 34,000,000 for New England, in proportion to population, it was not greater in proportion to the means and wants of banks; especially, if we regard the localities of the respective banks. Thus, no one can doubt, that a banking capital of $3,875,794 for the district of Columbia (equal to near $100 to each inhabitant) was more excessive than is exhibited in any part of New England. The banks, also, which have failed in New Jersey, Pennsylvania, and Maryland, being generally located in places of little trade, must be regarded as furnishing examples of greater excess in banking than those of any part of New England.

As to the failures in the southern states, the ten set down to Virginia ought not to be comprehended in this class. They were self-created institutions,

which arose during the suspension of specie payments, or a short time before; and which, for a brief period, in the extreme scarcity of currency, contrived, by an evasion of the law against private banking, to throw their notes into circulation. In 1815, they petitioned the legislature to grant them charters; which being refused, and new laws being passed, to reach their evasion, they wound up their affairs, without loss to any one, unless, perhaps, a partial one was sustained by the stockholders; so that these ten cases referred to were rather instances of abortive attempts to establish banks, than of bank failures. If, then, they be deducted, the number of failures in the southern states will be reduced to five. There has not been a single instance of the failure of a chartered bank in Virginia.

Since 1830, there has been scarce any failure of a bank in any of the Atlantic states, except in New England, and principally in Massachusetts. In all these last instances, (so far as their circumstances have been disclosed in the public journals,) they have committed gross violations of the general law of that state for the regulations of banks.

If we look to England, we shall find still more satisfactory evidence of the danger of unrestricted banking. In that country, every one may engage in the banking business who pleases; but, by way of favoring the bank of England, no company or association of more than six persons, until lately, could unite for that purpose; and there, the number of failures has far exceeded any thing which

has occurred in the United States. In the year 1793, the number of country bankers who were bankrupts was twenty-six; but the actual number that stopped payment was one hundred.* From this time to 1810, eighty-seven commissions of bankruptcy were issued against country banks; in 1810, twenty-six commissions were issued; and, between 1810 and 1814, twenty-nine commissions. In the years 1814, 1815, and 1816, the number of commissions was ninety-two; from that time to 1825, sixty-two more; and, between October, 1825, and February, 1826, no less than fifty-nine; making, in thirty-four years, three hundred and eighty-one bankrupt banks. Nor is this all; for it is said, "that the actual commissions sued out do not show the extent of the failures; but that to these should be added the private compositions, which are commonly estimated to be to the number of commissions in the proportion of four to one."

The number of country banks which stopped payment in 1793 was supposed to be one third of the whole. Nor does time or experience seem to have brought any cure to the evil; as the average number of failures, so far as we have published accounts, continues to be about fifteen in a year;† and this, too, when the law which restricts the number of partners in a bank to six has had no existence since 1826, except within sixty-five miles of London.

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* Tooke on Prices, Appendix to Part I.

† McCulloch's Com. Dict., p. 95.

The calamitous effects of these failures of country banks in England are attested by all their writers. Mr. McCulloch remarks, (and in so doing he merely repeats what had been declared in parliament:) "The destruction of country banks has, upon three different occasions, — in 1792, in 1814, 1815 and 1816, and in 1825 and 1826, — produced an extent of bankruptcy and misery that has never, perhaps, been equalled, except by the breaking up of the Mississippi scheme in France." *

After such frequent and dire experience of the evils of the system of banking which prevailed in England, the legislature sought a remedy, in 1806, in joint-stock banks, by a qualified repeal of the restriction on the number of partners; but, this having proved insufficient, they seem, now, generally to admit the necessity of subjecting all banks, whether carried on by individuals or companies, to regulation; and the only question is as to the character and extent of their restrictions. Whether they shall not be prohibited from issuing any notes but those of the bank of England, which would then be the only bank of issue; whether they should be allowed to begin their operations until their whole capital is paid up; whether they shall not give security to the extent of their issues; whether the stockholders of a joint-stock bank shall be subject to the ordinary liabilities of partners in trade, or to the limited liability of the members of a corporation; and

* McCulloch's Com. Dict., p. 95.

whether the public should not be more fully and frequently informed of their dealings and condition. On all these questions, there seems to be great diversity among their statesmen and political economists; but, however these questions may be finally settled, they concur to show that all deem their past system a bad one; and that the source of the evil having been, in the past, freedom from regulation, the only remedy is, to subject them to such restraints as experience has recommended.

The arguments thus drawn from the experience of England and the United States, against unrestricted banking, would seem to be conclusive, but for the counter-experience of Scotland. There, banking is yet freer than it is in England, — the limitation on the number of partners in a bank never having extended to that part of the kingdom; and there banking has been comparatively safe. There had been no panic among the people, causing runs on the banks, and but few failures; so that the whole loss sustained from that source, in more than a century, had amounted only to £36,344; much less, no doubt, than had been often sustained in England by the failure of a single bank.

How, then, is this extraordinary difference to be explained? The only point of diversity between them, as to legal restraint, is, that in Scotland there is no limit to the number of partners, as there is in England; but the greater stability of the Scotch banks cannot be referred to this, as more than one fourth of the Scotch banks have

six partners, or less, and more than half have less than twenty partners. The cause of their greater safety must be found, then, in the superiority of their system. Let us notice its principal features.

The number of banks in Scotland which issue notes is thirty. The three oldest are incorporated, with large capitals, and numerous partners. The other twenty-seven have been established since 1766, and are all unchartered. The thirty banks have one hundred and thirty-three branches; of which, the chartered have forty-four, and the unchartered, eighty-nine. The mode of transacting business seems to be the same in all. They differ from the English banks in the following particulars: — They pay interest on deposits, (about 1 per cent. less than they receive,*) and on sums as low as £10, or even £5. They grant cash credits to tradesmen, shopkeepers, and farmers, who are able to furnish two sureties. These credits are generally from £200 to £500. They differ from ordinary loans or discounts in this: the interest is not paid at once on the whole sum, but only on such sums as are drawn out of the bank; and it is farther understood, that all payments and receipts of money by the persons to whom these cash credits are granted, will be made through the bank; so that the amount of both payments and receipts, in the year, is supposed to average, at least, five times the amount of the grant. The aggregate of these cash credits is estimated at 6,000,000 sterling.

* Of late, the difference has been greater.

Another important point of difference is, that all the banks of Scotland have a settlement twice a week, in Edinburgh; and the balances they severally owe, on an exchange of notes, they immediately give drafts for on their London bankers, with whom they have deposited their securities, bearing interest, and which drafts are equivalent to gold. Whenever, then, any bank is led to an over-issue of its notes, the excess is sure to find its way into the other banks, to which it must be paid in London drafts.

It seems reasonable to refer the greater stability of the Scotch banks to these peculiarities; and we see in all of them a conservative tendency. In consequence of a draft on London, at short sight, being equal to gold in Scotland, they are able, by means of depositing their funds in London, where they are carrying an interest, to pay off their notes in drafts; and are thus saved the necessity of keeping any part of their capital in gold. And as their notes, when issued in excess, would promptly reduce their deposits in London, the difference between the profits they receive on their money in Scotland and in England is too small to induce them to weaken their security, and to lessen their credit with the other banks and the public, as over-issues would be sure to do. They will therefore not aim to issue notes to a greater amount than can ordinarily be kept in circulation.

Their cash credits greatly assist them in circulating their notes. They are granted principally with that view; and where they are used as a

mere loan, without frequently drawing out and paying in money, they are discontinued.

But no part of their system has, perhaps, done so much, either for the community or themselves, as the payment of interest on deposits. By this, they receive all the unemployed money of the country, and some that would have sought other modes of investment, that might promise greater profit, but at greater risk. Hence, their ordinary deposits are estimated at upwards of 20,000,000 sterling. They are also made, thereby, better acquainted with the pecuniary credit of individuals, and of the precise monetary condition of the community, and regulate their dealings and issues accordingly.

But the practice of paying interest may have had still more influence in increasing the solidity of the Scotch banks, by lessening their number. It is obvious, that a bank which pays interest on its deposits cannot make as much profit on the same amount of business as one which does not pay; and the only mode in which the former can be compensated for this additional charge is by a proportional extension of its business. That field for banking operations, therefore, which would be lucrative to an English bank, might not pay expenses in Scotland. The field in the latter must, on that account, be larger; or, what is the same thing, the number of banks must be smaller. Hence it is, that there is so great a difference between the two countries in this respect. In the year 1800, when the number of country banks in

Great Britain was three hundred and eighty-six,* the banks of Scotland were only eighteen; and now, when the Scotch banks have increased to thirty-three,† the number of private banks in England probably exceeds one thousand. It was more than nine hundred in 1813; and the number of joint-stock banks, in 1836, was ninety-eight.‡ This payment of interest on all deposits as low as £10, or less, has the same effect in lessening the number of banks, as the bonus that is exacted in some of the states; and, as we have seen, tends to increase the security of the public, by lessening the number of banks, without impairing the safety of those who pay it. But, to whatever cause we may attribute the small number of banks in Scotland, it can scarcely be doubted, that their stability has been increased by their fewness.

While, then, we may fairly ascribe the greater safety of the Scotch banks to their paying interest on all deposits, their frequent exchanges of notes, their cash credits, and their being few in number, —to the prudent regulations they have prescribed to themselves, rather than to their being free from any regulation by law, —it does not follow, that their system, if adopted in this country, would produce the same effects. That excellent regulation, of having a general settlement and exchange of notes twice a week, would be scarcely practicable here, both on account of the greater dispersion

* Thornton on Paper Credit, Chap. VII.

† This includes three that are not banks of issue.

‡ Speech of William Clay, Esq., M. P., in 1836.

of our banks, and of the want of that facility of adjusting their mutual accounts by drafts, equivalent to specie. New York may, in time, come to be the London of the United States; but it is far from having the same relation to other parts of the union, as yet. And, above all, if the partners of a bank were individually liable for the debts of the bank, as is the case in Scotland, few men of prudence would embark their capital in a large association; and few are rich enough to command the public confidence without associates.

Nor do we know how much the success of banking in Scotland may be owing to traits of national character, or to local circumstances. Few of those who have speculated on the subject have failed to lay a stress on the remarkable prudence, frugality, and steadiness of that people; and, though these qualities might, with them, supply the place of legal restriction, it does not follow, they would do so every where. We know that the ardor of enterprise, which characterizes the people of the United States, often betrays them into rashness; that in nothing has that rashness been more strongly exhibited than in banking. The single example of Scotland, then, furnishes no more argument, that banks may be left to their own discretion, than, because there had been few or no explosions of steamboats on the Delaware or Hudson, it was unnecessary and unwise for congress to subject them to regulation. In steamboats and banks, though extraordinary profits may justify

to individuals, or seem to justify, great risks, they afford no adequate compensation for the injury done to the public.

But, in thus acknowledging the superiority of the Scotch system of banking over the English, or that which has prevailed in most of our states, let us not overrate its merits. Free banking there has not gone unscathed. Five of its unchartered banks were stated to have failed, in the evidence given to a committee of the house of peers in 1826; and another, since that time, is said to have been embarrassed.* This, then, though implying great comparative safety, is not that degree of stability which we ought to aim at, and which is attainable under a course of judicious regulation. It is not, indeed, as great as that which has already been reached in at least one state, and possibly in others. It has been thirty-two years since banks were introduced in Virginia; in which time, no chartered bank has ever failed; and all others have been prohibited by law. The system in that state has, however, considerable defects; and the banks owe their safety more to the caution with which the legislature has granted charters, than to the sufficiency of the restrictions which those charters have contained.

On the whole, we must conclude that though, from the example of Scotland, banking may, under peculiar circumstances, be conducted with prudence

* Speech of William Clay, Esq., M. P., p. 100.

and safety, when left to the sole guidance of an enlightened self-interest, yet, from the more enlarged and varied experience of England and the United States, the chances are against such a result; and, in a branch of business in which the success of many is no compensation for the failure of a few, it will be wise to enforce moderation and forbearance by the sanctions of law.

CHAPTER XII.

GOVERNMENT BANKS COMPARED WITH JOINT-STOCK BANKS.

When the profits of banking are so great, where banks have not been too much multiplied, that the banks, after paying a bonus to the government, are able to make liberal dividends among the shareholders, it has been asked why the state should not, in its corporate character, appropriate this benefit to itself, and so far lessen the burden of taxation; and the rather, as the furnishing the community with money has always been regarded as an attribute of sovereign power. If it is the proper province of the government to provide the coins of gold, silver, and copper, which are wanted for the currency of the country, and one which it jealously maintains and enforces by the severest penalties, — why should it not also furnish it with the paper representatives of those coins, when, in the progress of society, they constitute much the largest part of the currency? If, too, it be considered as much the duty of the government to provide a standard of value, as standards of measure and weight, it is particularly incumbent on it to regulate bank paper, which participates in all the fluctuations and uncertainty to which coins are

exposed, and is liable to others that are peculiarly its own.

That the banking of a commercial country, if the government thought proper to take the business into its own hands, might prove a great and continual source of profit cannot be doubted. Let us, for instance, suppose that the whole banking operations of the United States were the monopoly of the federal government, by means of capital gradually accumulated by the excess of income over expenditure, and which excess, the business of banking would contribute rapidly to enhance. The whole amount of loans and discounts of all the banks in the United States, by Mr. Woodbury's last report,* was, on the 1st of January, 1838, $485,000,000. But, as this amount is swelled by the loans made of the banks to pay up the capital stock, in the way that has been already explained, which loans would not have existed if the government was the only banker, a deduction to that extent from the gross amount of discounts should be made. There are no data before the public for ascertaining the amount of money so borrowed; but, let us suppose that one half of the capital stock paid up has been thus obtained, and still constitutes a part of the debts due to the banks. One half of the capital is 159,000,000, (within a fraction;) and, if this be deducted from the amount of discounts, it will leave 326,000,000 as the amount of existing loans from the government to

* June 7, 1838, p. 2.

the people. This sum, at 6¼ per cent., would yield an annual income of upwards of 20,000,000, of which, if the amount be deducted which had been drawn from the people in the way of taxation, and which would constitute the banking capital, and a farther deduction be made for extra expenses and losses, about one half, or 10,000,000, would be net profit, arising from the substitution of paper for the precious metals. But, if it be supposed, as some may be inclined to do, that the whole 485,000,000, and yet more, might be safely lent by the government, and that a large sum might also be made, as undoubtedly would be practicable, by premiums on drafts for the purpose of distant remittance, the profits would be proportionally increased, and might, perhaps, in the gross amount, exceed 30,000,000 a year; which is nearly double the regular and necessary expenses of the government.

In like manner, if we suppose the banking in the several states to be monopolized by their respective governments, each would experience a correspondent increase of revenue beyond its increase of taxation. Thus, in New York, the excess of loans made by the banks beyond their capital on the 1st January, 1838, was 36,000,000, although they had, in the previous year, been reduced 18,000,000.* Taking this difference as the measure of the profits of banking in New York, it

* See bank commissioners' report to the legislature of New York, Jan. 24, 1838.

would exceed $2,000,000 annually. And, in Virginia, which has less banking capital than any one of the Atlantic states, except North Carolina, the difference between the discounts and capital is about 9,000,000, which, after paying expenses, yields a greater annual profit than the ordinary expenditure of the state. But, as the capital, after it was once obtained, would be permanent, and would no longer require taxation, the whole profits of the bank, deducting the expenses, would then be public revenue; and its amount from this source, in New York, would be about $4,000,000, and, in Virginia, about $1,000,000.

Supposing the profits arising from this substitution of paper for coin to be vested in roads, canals, and other public improvements, what a magnificent result would it produce in half a century, or even in twenty years! It might already have doubled the canals of New York.

But, notwithstanding these results, as plausible as they are splendid, there seem to be insuperable objections to this mode of supplying the community with a paper currency.

First, — if the profits of banking were derived, as they now are, from discounting promissory notes and bills of exchange, then every argument which could be urged against the government's engaging in any other branch of business — agricultural, commercial, or manufacturing — for the sake of profit, would apply to this. We cannot look for the same prudence, diligence, and economy, in conducting the affairs of the public, that individuals

exert in the management of their own. Individuals can do much of their business for themselves; but governments must necessarily act by agents. Besides, the business of lending the money of the bank to suitable persons requires a knowledge of the credit of individuals, as well as of the state of commerce generally, which the directors of a bank, selected for this purpose, are barely equal to, but which the officers of the government, chosen generally for their political orthodoxy, their services, or zeal, may be very far from possessing. Nor could their conduct be subjected to so severe a scrutiny by the government, as by the stockholders, from the multiplicity of its duties, and its remoteness from the scene of action. Indeed, in times of great party excitement, that course of favoritism by which pecuniary consideration would be made to yield to political, and which the stockholders of a bank would be sure to discountenance, might meet with favor rather than censure from the government. If party zeal is sometimes a screen for moral delinquency, we might suppose it would prove a coat of mail for mere imprudence. As public officers then would have neither the means of doing right, nor the checks against doing wrong, which we might expect in the directors of joint-stock banks, their banking operations might prove a source of loss to the public, instead of gain.

In the next place, those who administer the federal government must be always expected to have a vigilant and active opposition; in other words, there will always be two great political

parties in the country, one of which will be in favor of the administration, and the other will be opposed to it. Now, it is contrary to all experience to suppose that those who had so powerful a machine under their control as the whole banking power of the country, and which would be ten times as great as at present, by being undivided, would not be disposed to use it in favor of one party, and against the other; and, if skilfully used, what might it not achieve? The power of the late bank of the United States, with a capital of only $35,000,000, was thought, by some, to be formidable to the government as well as to the state banks, and this was one of the principal reasons assigned for putting it down; but what was its power, when exerted against that of the government, and of numerous rivals, commonly equal to itself in any one place, compared with what would be the power of all the banks united, when added to that of the government? If the people were capable of being bought, of trafficking away their rights and liberties, a government, provided with such means, might be able to purchase them; and, though that should not be the fatal result, such an accession to the power and patronage of the government would make the will of its party resistless; and we know that no tyranny is more merciless and unprincipled than that of party. We every day see the men who compose it, tolerate and approve what, as individuals, they would revolt at. We may then infer, that such potent means of influence would not be conferred by any people possessing the

smallest degree of discernment, or jealousy of power, and that in this country the experiment will never be made until the love of civil freedom shall cease to find a place in the hearts of the American people. But, it may be urged, that while the government would be unfit to manage a bank of *discount*, it might safely supply the country with a paper currency, by issuing notes, redeemable at the treasury and its offices, in payment of its debts; and that in thus supplying the nation with a circulation which would have a solidity that the paper of no joint-stock bank could possess, they might make a correspondent profit in aid of the revenue.

It is true, that a government, in good credit, might circulate its paper to a considerable extent, in payments of its officers and contracts; and if there was no other paper currency, it might thus supply the country with all that part of its circulation for which paper was preferable to the precious metals. But would it be safe to vest even this more limited power in the agents of the government? On the contrary, may we not confidently pronounce that it would be abused?

In issuing this paper, the public officers would perform the part of bankers, whether it consisted in paying to the state creditors the government paper directly, or in giving treasury drafts on distant places, or in exchanging paper for specie; and when it was found that this paper had the credit and currency of gold and silver, it cannot be supposed that it would not sometimes be used to serve the private purposes of the administration, or

of the officers themselves. Would not — ought not — then, the jealousy to which we adverted refuse to repose so great and dangerous a trust in those who would have the strongest inducements to violate it, who could violate it with the most facility and the least danger of detection, and whose violation would be the most serious and perilous to the nation in its dearest interests?

If a private corporation were thus to abuse its power, there would soon be means of detection by the sharp-sighted stockholders, though the officers succeeded in deceiving the public, and hoodwinking the legislature; and, in that case, either the public or the corporation would lose money to the extent of the fraud; but no injury could be done to the other rights and interests of the people. But should the abuse be committed by the officers of the government, it might be for the purposes of corruption, and the first use made of the money might be to buy up those who would be most likely to detect them, and most interested in bringing them to punishment.

To some, these may seem to be visionary fears, and founded on a state of morals which it is to be hoped has rarely existed, though so often suspected by those who make their own conscious meanness and knavery the standard to judge of public men; but the greatness of the threatened mischief more than balances the improbability of its occurrence. And, granting that gross and palpable corruption may not be the result of the policy, yet it may be in the power of those who have the guardianship

of the public treasure, and of its equivalent, the government paper, which it can fabricate at pleasure, to render pecuniary favors to many, and thus to buy their votes without the formality of a bargain. The use of money to an individual may be the same as the gift of money. It always is the same to most men engaged in business; and some who would never think of defrauding the public treasury, might have no scruple about lending its money, or its credit. In more than one of the states, both before the revolution, and since, those who have had the custody of the public revenue, though men of high character for probity, have not been able to resist the applications of their friends for temporary loans, until the practice became habitual, and terminated in their own ruin and the public loss; which loss, their character, by preventing suspicion, and delaying detection, served but to aggravate. There is, indeed, no way in which the power of making and issuing paper currency can be so given to the officers of the government that it may not be abused, and become dangerous — dangerous, too, not merely to the property of the commonwealth, but to what is of far higher importance, to the moral purity of its citizens and their political rights.

Perhaps the practice of issuing paper money during the revolution may be referred to in proof of the practicability and safety of such a function of government. But to this it may be replied, in the first place, that we do not know that the trust was never abused. But, admitting it was not, it

does not seem reasonable to draw examples for a permanent course of policy from a period when, if ever, men are to be found pure, disinterested, and rising superior to ordinary temptations in the sense of common danger, and the ennobling duties of patriotism. That abuse of trust which did not exist in the course of six years, (from 1776 to 1781, when further issues of paper ceased,) might have occurred if they had continued some years longer. We find that the burgomasters of Amsterdam performed their duty faithfully for more than a century, but that they finally yielded to the temptation to which they were exposed; and that the chief functionaries of the government were participators in their fraud.

But there are other points of difference between the old *continental money*, issued during the revolution, and a paper currency to be now issued by the federal government. Then, the guardians of this trust were appointed by thirteen different states, annually, and in their numbers, their short term of service, and their responsibility to different legislatures, there was sufficient security for the faithful discharge of their duty, if they had not been prompted to it by higher motives. But, at present, all the business of disbursing the public money, and of superintending the agents of the disbursements, devolve on the federal executive, — who is independent of the legislature, and of the people themselves, — for four years; who has a strong interest during that time to secure his re-election for four years more; and who may indulge

the hope that, in the course of eight years, he may, by a diligent and skilful use of all his means, hope to continue his power beyond that time. Here are strong temptations to abuse which did not exist in the case of the continental money; which, for the last year or two of its existence, was of no more importance than the right to coin cents, or the little *shin-plasters* of the present day. The people, therefore, who should give to a single executive the power of making money at pleasure, though only of paper, would have their folly well illustrated by the fable of the wood, which, in granting the liberty of cutting a helve, granted that by which the whole forest was soon levelled to the ground.

CHAPTER XIII.

THE POLICY OF A BANK OF THE UNITED STATES CONSIDERED.

THE constitutionality of a bank established by congress will not be here discussed, but it will be assumed that such a one may be legitimately created, not only on account of the long acquiescence of the people in the establishment of two such banks, during the alternate sway of the two great parties that have divided the United States, but also because, if that were not the case, the constitution might be altered, and the power be given, if it should be found, on experience, that the objections to it were either not valid, or were outweighed by superior benefits. It is to be presumed that no one, out of superstitious regard for the constitution, as it was framed, would feel himself bound by the opinions of its framers, who, however sagacious and intelligent, had not the lights of our experience, and could not possibly foresee what would suit us as well as we can feel and know what does suit us.

Let us, then, calmly consider the benefits and disadvantages of a national bank apart from any constitutional objections, and unbiassed by the support it has received from a majority of the

nation at one time, or the reprobation it has received at another.

The advantages on which its friends rely are, that it furnishes the nation with an uniform currency, which is attainable in no other way; that it is a salutary check on the state banks, whereby their excessive issues, their eventual failure, and a vitiated currency, are prevented; that such a bank is a great convenience to the government, in collecting, keeping, and disbursing the public revenue; and that its credit may give most important aid in great national emergencies.

They support these propositions by arguments of the following character: — It is obvious that, if a bank be established with a capital sufficient to have branches in all the states, its paper may obtain a credit and a circulation throughout the union, which no paper of a state bank could ever reach; for, in every state, each branch of the national bank will be able and be disposed to give a credit to the paper of all the other branches, to an extent which is not to be expected from unconnected banks. Nor could any amicable compact among the state banks supply the place of the intimate connection created by an incorporation under a common charter. Such voluntary arrangements are always liable to be disturbed by the occasional failures, or even the discredit of some of the banks; or by the springing up of new interests; or by the expiration of their charters; or by the interposition of their respective legislatures. These views have been confirmed by experience.

We have had a trial of both schemes; and no paper of a state bank ever has had so general a circulation as the notes of the late bank of the United States; and, although the several branches of that bank were not obliged to receive the notes of one another, yet they commonly did so for a premium, which was so small as to secure to them the whole of the business of remitting money to a distance, and to make the paper of all the branches, as well as of the principal bank, substantially an uniform currency. The difference between that and perfect uniformity was merely nominal. The amount of the domestic bills purchased, and of the drafts sold, by the bank of the United States, in the year 1831, was upwards of 80,000,000; and the premium between the most distant places seldom exceeded ½ per cent., and, for the most part, was under ¼ per cent. But, when the same operation devolved on the state banks, it often amounted to 2 and 3 per cent.

The next useful function of a national bank is, to act as a check on the excessive or imprudent issues of the state banks. A national bank, being chartered by the general government, is independent of any single state legislature, and could feel only the influence of the public sentiment in the whole union; which, acting on the house of representatives, and more slowly on the senate, might operate on the bank, either in the exercise of the general superintending power belonging to the legislature, or in the immediate transactions of the bank with the government, or in deciding on the

terms of a recharter, or on the fact of the recharter itself. It would thus feel a due degree of dependence on the federal government, but be independent of all local influence. The state banks, however, are all more or less under the control of the state legislatures, and therefore cannot, but to a limited extent, exercise any check on each other, except what arises from their occasional exchange of notes.

By reason of this greater independence of a national bank, it will feel no hesitation in demanding specie from any state banks whose notes, issued in excess, have accumulated in the national bank. The knowledge, moreover, that this bank has such a power, that it is interested in exercising it, and that it can be exercised with impunity, will, of itself, prove no insignificant check on the imprudence of the state banks. But, on the other hand, these banks give and expect mutual forbearance, partly because they are responsible to a common head, and are thus led to seek a common safety in concert and unity of action; and partly because, if any one was to undertake to check the operations of another, it would necessarily lead to contention, —in which case, each party would have its friends and supporters; and, as these chanced to prevail, either might suffer, and perhaps both.

The late bank of the United States, in this way, was a curb on the state banks, which they all felt, and which, indeed, was the foundation of a jealousy that contributed to its overthrow. It was impossible, that any state bank, situated in the same town as one of the branches of the national bank, could much distend its issues, without most

of the excess finding its way into the latter, in its collections of the public revenue; and, as it was their established practice, to exchange notes with the neighboring banks once a week, and for the creditor bank to receive the difference in specie, they were thus effectually prevented from enlarging their issues much beyond the limits of prudence.

It is true, that the power thus possessed by the United States bank was mainly derived from its being the depository of the public revenues, whereby it was constantly receiving the notes of all other banks in good credit, that had been paid to the officers of the government, in discharge of the public dues; but, as such a bank can render greater accommodation to the government than any state bank, in transferring its funds from any one point to any other, the government will, for its own sake, make its deposits in the national bank. Such an arrangement, being advantageous to both parties, may be regarded as incident to such an institution; especially if the public should be a partner in the bank, and should have some participation in its management.*

* We have, indeed, seen an exception to what is here assumed as a general rule; but every one will admit, whatever he may think of the merits of the controversy between the administration of general Jackson and the bank, that it exhibited a singular spectacle, to see the government remove its deposits of cash from the bank of the United States, when it was certain to lessen the profits of an institution of which it owned one fifth of the stock, and appointed one fifth of the directors. A course so little in accordance with the common principles of human action cannot be fairly deemed a qualification to the rule.

A third advantage is, that a national bank can greatly assist the operations of the government, in the collection and disbursement of the revenue. It could perform this office with more safety, because, by the large amount of its capital, it will be more solid and responsible: it could perform it on better terms, by means of its affiiliated banks; and it would, on occasions out of the ordinary routine of business, be more accommodating than the state banks, because of its closer connection with the general government, and its dependence on it for its continued existence. Having also a higher credit abroad, as well as at home, it could, with more certainty, transmit the funds of the government to foreign countries, and bring home those to which it was entitled from abroad. And, lastly, if, in time of war, or other great emergency, the government should wish to borrow money, the bank could afford it immediate aid, by the established credit of its paper. We saw a signal instance of this advantage in England, after its principal bank was nearly exhausted of its gold, and suspended cash payments, in 1797. Its notes still continued to be received, and to circulate as money, and they do not appear to have undergone the smallest depreciation, until the bank was tempted, partly with a view of increasing its profits, and partly of assisting the government, to increase its issues beyond the amount required for the commerce of the country — when the excess, not being exported, necessarily depreciated.

On the whole, then, according to the preceding views, a national bank appears to be a very convenient instrument of finance — a preventive of the most dangerous abuses of banking, in other institutions, by absorbing all the paper which they issue in excess, and converting it into specie, and by furnishing the community with a currency which is of very nearly the same value in every part of the country, and which, equal to gold and silver in the places where it is issued, is, for distant payments, far better than those metals. Such was the opinion of majorities of both houses of congress for four successive years, (from 1829 to 1833,) notwithstanding the whole weight of the administration was thrown into the opposite scale, and a majority of both houses part of the time, and of one house all the time, were the friends and supporters of the administration.

There is a fourth advantage, which it seems reasonable to expect from a national bank, though nothing but experience could test its efficacy.

We have seen that one of the disadvantages attending banks of circulation is, that, whenever, by the course of foreign commerce, specie tends to flow out of the country, or the balance of trade is unfavorable, the currency is much more diminished than if it was altogether metallic; as the banks, in self-defence, are obliged then to reduce their issues, and thus aggravate the scarcity of money caused by the export of specie. Whatever, therefore, tends to lessen or to correct this unfavorable bal-

ance, in the same degree tends to spare banks the necessity of thus withdrawing their notes from circulation. Those public stocks which are in good credit in foreign countries may answer this purpose for the time; and those which have, within two or three years, been remitted to England, have contributed to keep up the rate of foreign exchange; and, but for them, the amount of specie in the country, as well as of our imports, must have been greatly diminished.

But, of all public stocks, next to that of the federal government, there seems to be none which is so well fitted for remittance abroad, as the stock of the national bank; as we find that there is no other which has ever borne the same price in London as in the United States, and that this advantage has been, in a great measure, transmitted to the United States bank of Pennsylvania, partly from the two institutions having become identified in public opinion, and partly from the general confidence in the presiding officer of both — Mr. Biddle. The stock of this bank, then, may serve as a ready means of remittance, when the ordinary articles of export are insufficient, and so far tends to prevent sudden and embarrassing reductions of specie. In times of extraordinary pressure, the bank may also issue post notes and bonds, payable at a distant day, which may also be used for remittance.

It is true, that both these expedients were used in 1837, and were not sufficient to stop the efflux of specie; but, undoubtedly, they greatly dimin-

ished it; and they further, by affording means of remittance to American debtors, which they could not otherwise have commanded, whether the banks had suspended specie payments, or not, enabled them to keep up their foreign credit. Besides, it must be remembered, that there was an extraordinary concurrence of circumstances, such as we had never witnessed before, and may never see again, which swelled the balance against us in 1836. In the ordinary fluctuations of commerce, the high credit of a national bank might be sufficient to prevent excessive exports of specie. Such a partial operation might be better than the prevention of any export whatever; as, while it would secure the community from that general stagnation of business, which is produced by a great and sudden diminution of its currency, it would not prevent that frugality and moderation which are the natural correctives of national excess and extravagance.

If the stock of the national bank would be a ready resource for assisting in paying off the balance we may owe to Europe, and especially to Great Britain, it may, in like manner, by being returned to us, help to restore the balance when it is in our favor; and thus it may perform the same useful office as those loaded machines seen on board our steamers, which are shifted from side to side, for the purpose of keeping the boat steady, by counterbalancing the irregular movements of the passengers. In this way, the greatest disad-

vantage of banks may, by banks, be greatly mitigated, if not wholly counteracted.

But the opponents of a national bank say, in addition to its being unconstitutional, that its power is too great and dangerous for a popular government: that it tends to increase the influence of the moneyed classes; they deny that it has given, or can give, an uniform currency: they urge that the bank has it in its power, by extraordinary expansions and contractions of its isues, to lower or raise the value of money, and consequently of property, at pleasure; and that, either from interested, or ambitious, or corrupt motives, it will be induced to exercise this power: that it is naturally allied with the rich and aristocratic against the poor, who constitute the great mass of the community, and is so far inimical to a democratic government, that all its power and influence will be thrown, in elections, and on every political controversy, into the anti-republican scale: that the convenience it may afford, either to the government or the public, may be effected as well by the state banks; and, though this were not the case, such a petty advantage should weigh as nothing against the political tendencies of such an institution; more especially when the same power, which may be used in the service of the government, may be also exerted to thwart its most salutary and important measures. It is denied, that such a bank can prevent the state banks from over-trading; and, though it could, who, it is asked, can prevent the national bank?

To what purpose pull out the little thorns, if the largest, the most painful and dangerous, is left behind? It is insisted that, when the state banks are tempted to over-trade, the national bank would do so too; and, when the former are compelled to suspend specie payments, so will be the latter. In short, they say, a national bank prevents no one of the evils to which all banks are liable, and gives rise to others that are peculiarly its own.

CHAPTER XIV.

EXAMINATION OF THE OBJECTIONS TO A NATIONAL BANK, AS AN INSTRUMENT OF COMMERCE AND FINANCE.

In considering the objections which have been urged against a national bank, let us begin with those which apply to it merely as a bank of circulation and an agent of the government, and then notice those which are of a political character.

1. That such a bank will not check the issues of the state banks; but, when they are tempted to an over-issue, or are compelled to suspend payment, so also will be the national bank.

Wherever the practice prevails, among banks, of exchanging notes once a week, and of paying up the balance, it is impossible, as we have seen, for them to keep an excess of their paper in circulation; as such excess is necessarily either returned to the bank that issued it, or finds its way into other banks, to be exchanged for specie. This practice is a check on the undue issues of all the banks which adopt it; and of course it would operate to prevent the over-issues of the national bank, as well as of the state banks.

Such was the practice with the late United States bank, and all its branches. Weekly ex-

changes of notes were regularly made with the other banks in the same place; and, during that time, there was no dangerous excess, either on the part of that bank, or of the state banks. The same practice prevails in Scotland; and it is thought to contribute more to keep their issues within the limits of prudence and safety, than any other regulation whatever. In the examination before a committee of the house of lords, in 1826, all the Scotch bankers speak of this check as prompt, constant, and effective.

But some may think the public will have no security that the banks will rigidly require each other to pay up the balances in specie; on the contrary, that, as this would be a check on the issues, and consequently on the profits, of all, they will practise mutual forbearance, and not require specie from the others, that it may not be required from themselves.

This supposition, however, is not only in conflict with actual experience, both in this country and Scotland, but it assumes that the banks will disregard the plainest suggestions of interest and safety.

Every bank is interested in circulating as much of its own paper as it safely can; for, according to the amount circulated, so is its profit. But, in the same degree that the circulation is filled up with the paper of other banks, is there less room for its own; and to the same extent that a bank receives and retains the paper of another bank, does it augment the circulation of its rival, and abridge its own. Its interest, then, will not permit

a large amount of the notes of other banks to accumulate in its drawers, without insisting on their redemption.

Such a course, too, would be as little consistent with safety as profit; for the specie of the bank that pursued this course would be diminished by the issues of other banks no less than by its own; and if it suffered the paper of the latter to accumulate, (as it necessarily must, if all other banks did not pursue the same course as to its paper;) then, to the same extent that it received less specie, or less of its own paper, the quantity of the former would be continually diminishing, and that of the latter be increasing, until a very moderate run on the bank would drain it of every dollar. We may, then, confidently predict, that, on the common principles of self-interest, banks are disposed to check the issues of each other, and to exchange notes at short intervals; unless, indeed, a conviction that such exchange would take place has made it unnecessary. And where such practice has not prevailed, it will be found that some extrinsic consideration has counteracted the obvious dictates of interest; as where they all dread the effects of a collision which may subject them to the interference of the legislature, (to which they are all amenable,) and to the uncertain chances of party ascendancy, in those seasons of excitement so common in popular governments. But, since the national bank and the state banks would be subject to the control of different governments, such a disregard of the dictates of self-interest and self-defence cannot rationally be expected.

The late suspension of the United States bank of Pennsylvania, and the previous excess of issues, which that suspension seems to indicate, furnish no argument against the preceding views. That institution is, in all respects, a state bank, and can lay claim to no greater independence of the legislature of its state than any other bank. The same prudential considerations, which would prevent another bank from coming into collision with its neighboring rivals, would operate on this bank; and there were some which would operate with peculiar force, as it was a recent establishment, and was the object of deep-seated hostility to most of the dominant party in the state, and to the whole federal administration, notwithstanding all the arguments drawn from the constitution, from policy, and from natural justice, in favor of considering such charters as a species of implied contract between the public and the corporation. It therefore is not a fair inference, that, because the United States bank of Pennsylvania did not check the issues of its fellow-banks, a national bank would not have checked them; seeing that it would not only have been more free to obey the suggestions of interest and prudence, as well as of public policy, but have also had the additional means afforded by the government deposits.

2. Another objection is, that a national bank may, by extraordinary expansions and contractions of its issues, lower or raise the value of property at pleasure; and that it will, from various motives, be induced to exercise this power.

If the answer that has been given to the first objection be sound, the second, so far as regards the improper *expansions* of its issues by the bank, has no foundation; since the national bank would experience a reciprocal check from the state banks. However cautious and forbearing these institutions may be in their transactions with each other, they would feel no timidity or undue restraint towards a bank responsible to another government, and would always regard it with more or less of the jealousy felt towards a rival and an alien.

It is not denied, that a national bank, like any other, may be deceived by appearances, and sometimes suffer its issues to exceed the limits which subsequent events would show that prudence and the public interest prescribed. Not to admit this, is to suppose the science of banking, and we may add, the wisdom of moderation, had attained perfection. But, however disposed the national bank may be to expand its circulation, and however confident it may be that it is warranted in so doing, it cannot expand beyond the point to which it is entitled by its superior capital, credit, and resources, so long as there are rival banks, equal or superior to its separate branches. It cannot, therefore, have any *relative* excess of circulation if it would; and it will never have any *absolute* excess, knowingly, because such an over-issue is sure to be followed by a correspondent contraction, which will not only lessen the profits to as great an extent as they were previously increased, but commonly to a yet greater; as, on such occasions, there is always dan-

ger of loss from bankruptcy; and because, moreover, a contraction of issues is certain to create great distress and complaint throughout the community.

As to a contraction of its issues not made necessary by a previous unwarranted expansion, the public has ample security against this abuse of power. Such a contraction diminishes the profits of the stockholders, in proportion to its extent and continuance; and, of course, will not be resorted to, except when it is urged by motives bordering on necessity. If the clamors of borrowers and debtors are among the strongest moving causes for a bank to extend its loans to the farthest verge of prudence, the same clamors are, *à fortiori*, more powerful to check curtails and the collection of its debts, since the desire for further loans can never be so urgent, or occasion so much pressure, as the desire to postpone the payment of money, when it is particularly scarce. Those who conduct the affairs of banks, like other men, are not indifferent to censure, though they should be to the distresses of applicants. On all these accounts, therefore, banks will not, except from motives which will justify them both to the stockholders and the public, ever choose to contract their issues.

The only instance in which the late United States bank was charged with systematic expansions and contractions of its loans, with a view to some extrinsic object, was, when it was supposed to wish to interest a larger number of the people in its recharter — a fact which has been

strenuously denied by the officers and friends of that institution; but, if true, it would furnish no ground for assuming that what was done by the bank, in a struggle for its existence, and which, of course, might expect the sanction of the stockholders, would be done on other occasions for the exclusive benefit of the directors, and when, as we have seen, it would be injurious to the stockholders.

A wilful abuse of their trust, of this character, for their own benefit, could not well be concealed. The only ways in which they could profit by it would be in obtaining loans from the bank, and in the purchases and sales of stock, or other property, according to the rise or fall in the value of the currency which they themselves had created; and none of these acts could be kept from the knowledge of the public. Such a course, on their part, then, implies an indifference to character, as well as recklessness of principle, which is rare in an individual, but which it would be a moral prodigy to find in a body of men, chosen as the directors of a national bank would be, for their integrity and intelligence, as well as solid capital. The directors of the bank of England, possessed of such ample means in the vast capital, and often large discounts of that institution, and having always at hand so boundless and tempting a field for speculation as is presented by the public debt, so that a difference of a half per cent. would make a handsome fortune to one who ventured largely, have never been accused, or even suspected, of thus abusing their

power, for the sake of profiting by the artificial plenty or scarcity of money which they themselves had produced. As a further security, it must be recollected that a minority of the board of directors can commonly prevent the undue expansion of issues, and, as many of our banks are constituted, any number of the directors, exceeding one fourth, is sufficient to frustrate the corrupt purposes of the rest, and that a single director, of firmness and honesty, by threatening exposure, may prove sufficient.

The objection, then, supposes a degree of power in expanding, which, where there are powerful rival banks, a national bank does not possess, except so far as those rivals may concur with it in such expansion. It supposes, too, a disposition to contract its issues unduly, which, according both to experience and reasoning, must be deemed extremely improbable; and which, if it did occur, has abundant counteractions, — first, in the votes of a minority of the directors, who have not entered into the combination; then, in the interest and wishes of the stockholders; and, lastly, in the clamors of the community; which, combined, may always be considered sufficient to prevent an improper contraction of the issues of the bank. They have hitherto been so effectual, that, while the charges against banks for imprudent expansions have been frequent, those brought against them for injurious contractions have always considered those contractions as the necessary consequences of their previous over-issues, except, indeed, such

complaints as will always be made by needy and disappointed borrowers. The directors in no instance have been suspected of either expanding or contracting for their private purposes, and never, but once, for the benefit of the stockholders; that is, for the continuance of the institution.

The objections, then, are narrowed down to this, — that they may sometimes unduly expand their issues, unconsciously, and from mistaken views; and possibly they may both expand and contract them purposely, when they have reason to apprehend that their charter, about to expire, will not be renewed.

In answer to the first, we may look for continual amendment, and, perhaps, an effectuul corrective, from the further lights of experience, and in the progress of improvement of the science of banking; and, as to the second, as it had its origin in the hostility of the executive to the bank, — which state of warfare must be regarded as unusual and unnatural, especially when it was against the declared sense of both houses of congress, for four successive years, — we may reasonably expect that, if a national bank should be again established, such a motive to endeavor to influence public opinion, against its pecuniary interest, will never again occur; and, though it should, the bank will know that, by such a course, for such a purpose, it would lose more friends than it would gain. That bank as well as the state banks would have to trust to its good conduct for the renewal of its charter. Of all the strange events concealed in the unknown

future, the most improbable is, that there will be another open rupture between the president of the United States, and a corporation, and that corporation the receiver and disburser of the public revenue.

3. It has been also maintained that a national bank cannot furnish a more uniform currency than the state banks.

This assertion is made in the teeth of all the experience afforded both by the first and the last bank of the United States, during a course of forty years. In the whole time of their existence, or near it, the notes of the national bank had a general circulation all over the union; and if a proportion of the notes payable at one branch were not received at another, without some discount, yet, in the ordinary transactions of business, they have every where passed at the same rate as gold and silver, and, in some places, have commanded a premium over the precious metals.

Even where they have been taken at a discount, it has been inconsiderable, and very different from that which has been paid on the notes of the state banks, when they constituted the only paper currency. It may, indeed, be affirmed, that the cases in which the notes of the United States bank were worth more than their nominal amount in specie exceeded those in which they were worth less.

But is it practicable for a bank, with several branches, widely dispersed, to redeem, at every office, the paper issued at every other?

Soon after the late bank of the United States

went into operation, it was made a matter of complaint that this was not done, and those who were unfriendly to that institution alleged that it was bound, by reason of its exclusive privileges, and the previous pledges of its supporters, to make its notes, wherever issued, of the same value every where as gold and silver. Unless this was done, they could not pretend to have fulfilled their promise of furnishing the public with an uniform currency. The friends of the bank denied that they had ever undertaken more than that the bank should supply a currency equal to gold and silver where it was issued; but that to furnish one that should be of the same value every where, was beyond the power of any bank. Let us inquire into the practicability of such an indiscriminate redemption.

In the ordinary course of trade, every place buys and sells to the same amount. This is as true of a city, or town, as of a whole country; and then, if the notes issued by all the branches of the national bank were received at all, and were thus every where equivalent to specie, no branch would be likely to be called upon to redeem more notes than if no such regulation had existed. Indeed, as, by reason of the higher credit of all the notes in such case, and their wider diffusion, a smaller proportion would be likely to be returned to it to be converted into coin, the resources of the bank would seem to be rather strengthened than weakened by such mutual redemption; or, if there was only one bank of issue — the parent bank — by all the branches receiving and redeeming its notes.

Such may be the state of things so long as the course of trade runs smoothly, when all the great articles of merchandise are at their usual and natural prices, and no excess of demand or supply exists to disturb the equilibrium to which they all tend. But we know that these are liable to great fluctuations. Untoward seasons and a bad harvest may diminish the annual agricultural product of a country to one half the average quantity, as fruitful seasons may greatly augment it. A war may interrupt national intercourse, and thus cut off the supply of some commodities and the demand for others. A mania for speculation sometimes seizes on a particular community, and makes it buy, at enhanced prices, the products of a distant part of the country; as when New York speculates in cotton, by which its purchases exceed its sales, and the difference creates against it a heavy debt. These and other causes, moral and physical, are constantly iuterrupting the natural current of trade; at one time checking its course, and reducing it to a sluggish, and hardly perceptible motion, and at other times giving it the force and rapidity of a torrent.

On these occasions, the debts and credits of a place no longer balance one another; but some cities will be creditors, and some debtors, according as their commerce has been prosperous or adverse; and in those whose saleable commodities are not sufficient to pay what they owe, the balance must be paid in gold and silver, or not paid at all. It is on such occasions, of what is called an un-

favorable balance of trade, that banks are most pressed for specie, and are compelled, for their own safety, to call in a part of their debts, and thus to withdraw their aid at the time it is most wanted. In this state of things, it seems self-evident that a bank would be more liable to be exhausted of its specie, when bound to redeem the notes of many other banks, than when it was required merely to redeem its own.

It is true, that, in the case of the supposed regulation, when the notes of the national bank would be at par every where, remittances would be made in them from the debtor to the creditor city, in preference to gold and silver, so far as they could be obtained; and, for this purpose, specie would be carried to the bank to obtain its notes or drafts by which the branch in the debtor city would be able to defend itself against a run on it for specie, and might, indeed, by a liberal issue of its notes, make the unfavorable balance of trade the means of augmenting, rather than of diminishing, its specie. But, in the same degree that it improved its own resources in this way, it would lessen those of the branch in the creditor city, by adding to the paper returned to it, and stopping the current of specie that tended to flow to it.

It may, however, be thought that this course, which would bring such effectual relief to the bank in the debtor city, would not distress or embarrass the associated branch in the creditor city, as specie would have a tendency to come in rather than go out of the latter; and that the only effect

would be to increase the amount of deposits, instead of increasing the amount of specie.

If this were the certain effect, it would render the situation of the bank more hazardous; as it would increase that description of a bank's liabilities (the deposits) which it is sure first to feel, on a growing scarcity of money; and it would diminish the bank's means of meeting them. But, suppose (what is very probable) that the notes issued from the branch in the debtor city were to find their way into a rival bank, — they then must be the same as so much money drawn from the branch in the creditor city; and thus the natural course of things will be reversed, and more specie will be received by the branch which has the balance of trade against it, than by that which has the balance in its favor; and, if remittances of notes should be made from many points to the creditor city, and find their way into rival banks, the branch of the national bank in that city may be drained of every dollar, at a time when, if it had been responsible only for its own notes, its stock of specie would have been unusually large.

Besides, independent of these sources of embarrassment from the course of trade, the regulation would much more expose every branch to the hostility of rivals. So long as each branch is bound to redeem only the notes it has issued, it always knows the extent of its liabilities, and it can expand or contract, according to the currents of trade; but it knows, if it has been prudent, that, proportioned as its issues have been to its means, and

dispersed as are the notes it has issued, it is not easy for a rival, however unfriendly its disposition, or even a bitter enemy, to make a ruinous run upon it for specie. But, when it must redeem the paper of all the other banks with which it is associated, it may be overwhelmed with the paper of other branches, whenever enemies or competitors may so choose; and no prudence or precaution on its part could secure it from this danger.

The regulation, then, seems to be inconsistent with the safety of the banks; that is, with their ability to pay in specie; and, so far as the separate branches had the power of independent action, it would make the safety of every branch depend less on its own prudence than on the prudence of its associates.

Perhaps, however, it will be urged, that all the branches of the bank were in the habit of selling drafts on each other for a premium, whenever they were applied for; and if every branch could always thus draw on every other at pleasure, it was virtually the same as if each was bound to receive and redeem the notes issued by the rest, or made payable at a particular place.

There is, indeed, no substantial difference between an obligation to redeem the notes of all the branches when presented, and one to draw bills on every other branch; since all the embarrassment which may be produced by an excessive influx of the notes of other branches, may be produced by an influx of their drafts; and, where the first regulation prevailed, it would be of little other effect to

withhold the other, than to substitute the remittance of bank notes for bank drafts. And, though the former mode may be less safe than the latter to the remitter, it would make no difference to the bank. The notes would still be preferable, for remittance, to gold and silver, and would be accordingly used.

But there was this difference between the course pursued by the bank, and that which would have compelled every branch to an indiscriminate redemption of the notes of every other. In the first place, the bank exercised its discretion, in furnishing these drafts; and though, by means of its great resources and credit, and skilful management, it might never have been under any necessity of refusing to accommodate the mercantile community with drafts, it does not follow, that such a crisis might not have arrived, when, at some of its branches, such drafts could not have been safely given. In the next place, the bank was in the habit of charging a premium on these drafts; and, though that was commonly very moderate, it must have had a considerable influence in lessening the amount of drafts required. By means of this premium, they could regulate this branch of their business to their means, and never oppress or embarrass a distant office.

These premiums, which indicated the state of exchange between the different cities, not only added to the profits of the bank, but they also performed a salutary office with the public. They contributed to restore the equilibrium of trade be-

tween two places, by acting as a bounty on exports, and a duty on imports, in a way that has already been explained. And this useful process would be proportionally retarded, if the bank had been bound to furnish bills at par, or, what would be tantamount to it, to redeem all the notes of the national bank, wherever issued.

We are, then, warranted in concluding, from the preceding views, that a national bank could not, consistently with its safety, undertake to furnish a currency which, at all times, and under all circumstances, would be every where of the same value; since that would be undertaking to prevent the fluctuations of exchange consequent on the fluctuations of trade, by instantaneous transmissions of specie, for the purpose of restoring the disturbed equilibrium. But, though it cannot come up entirely to this point, it can approach it so nearly, that the difference is of no practical moment. We find that the dealings of the late United States bank in exchange were steadily increasing, until party hostility was brought to bear on it; so that it at length had attracted to itself almost the whole of this branch of the banking business. It appears, by an official report of the proceedings at the triennial meeting of the stockholders in September, 1831, that the amount of domestic bills of exchange *purchased* in 1822 was only about 7½ millions; but that, in the preceding year, it was 40 millions. In the same year, the amount of drafts *sold* by the bank was 42 millions; and, in the following year, the whole amount of transfers of funds from one

part of the union to the other is stated, by a recent writer, whom we may presume to be correct,* to be 225 millions. The charge made by the bank on the bills purchased and drafts sold is known to have been very small; and it must have been less than the same business could have been done for by others, or it could not have been thus engrossed by the national bank. This practice of the bank, of making a profit on the purchase and sale of bills, may be justified on another ground.

For the bank to be always in the market, ready to buy domestic bills, or to sell drafts, to suit the varying demands of commerce, it must, on occasions of unusual disturbances of the course of trade, be compelled to transmit specie from place to place; for, whatever may be the supposed credit of its paper, when there has been an extraordinary accumulation of it at any one point, the bank at that place must be reinforced with an addition of specie; more especially, when the balance of foreign commerce is against the place. It is, then, obviously just, that the bank should be compensated for performing this office; and which, if it did not perform, must devolve upon some other part of the community. The premiums and discounts paid to the bank must be less than the expense of transporting specie, or they would not be paid; and the difference is a net gain to the community, by the operations of the bank.

Sound policy and justice, then, forbid us to re-

* Mr. Henry C. Carey, Credit System.

quire of a bank to furnish a currency that would be of precisely the same value every where, no less than the regard which the bank has for its own safety; in which safety, the community also has a great interest. But, by not imposing on the bank this impracticable duty, and leaving it free to act according to its discretion and its interest, it may approach very nearly to the desired uniformity — far more nearly than ever has been practicable, or ever can be, to independent state banks.

4. It has also been maintained, that the financial services rendered to the government by a national bank may be rendered by state banks.

Little need be said, at the present day, to prove the superior fitness of a national bank as a financial agent of the government. While the public money was deposited with the late bank of the United States, or its predecessor, the funds were placed wherever they were wanted, with punctuality and despatch, and without the loss of a single dollar; but, during the three or four years since the state banks were used by the federal government, it has already lost large sums, by the failure of several. Nor does it seem reasonable to suppose that the service is done as well, or can be done as well, by banks which are independent of one another, and responsible to different legislatures, as by a number of banks under the immediate control of one common head, and eventually responsible to the federal legislature; and in whose immediate management the government may be expected to participate, through the directors appointed by itself.

Sometimes, too, the United States treasury has occasion, in its financial duties,* for the services of a bank that are out of the ordinary routine of business. It is more likely to obtain these from a national bank, which is dependent on the federal government, and with whose officers its own have been in the habit of doing business, than with banks whose dependence is on other legislatures, and whose connection with the government may be but recent. When the federal treasury has to rely on state banks for its financial agents, those agents will be liable to perpetual change. Sometimes, as we have lately seen, they will fail, and be compelled to wind up their affairs. Occasionally, their charters may not be renewed, or they may be amalgamated with other corporations, so as to be transferred to a new set of managers. And yet more frequently, changes may take place in consequence of the jealousies, the intrigues, and cabals of competitors for a share of the public deposits, and of other profits growing out of their financial agency. It is against all experience, to

* The late treasurer of the United States, Thomas Tudor Tucker, whose judgment was almost as little doubted as his integrity, by those who knew him well, has often told me that the government of the United States would find it very difficult to manage its financial concerns without a national bank. It is to be recollected, that he held the office of treasurer in the time of the first and the last bank of the United States, and during the intervening seven or eight years, when the government made use of the state banks as financial agents. He had a fuller experience on this subject than any other individual; and, at the times when he expressed his opinion, the question of a recharter of the bank had not been agitated, and, perhaps, was not thought of.

suppose that party considerations will not mingle in the appointment of these financial agents; and, granting that the treasury department be not thereby sometimes betrayed into the selection of unfit agents, (which is conceding a great deal,) it would be occasionally found necessary, in the ever-changing relations and attitudes of parties, to make correspondent changes in these agents, and to substitute for those whose cordial coöperation with the federal executive could no longer be counted on, institutions more faithful, more accommodating, and having better claims to executive favor. On all these accounts, changes of the banks used by the government will occasionally, and perhaps frequently, take place; and every such change is, for the time, a practical inconvenience to the officers of the government.

If an association of state banks would be inferior to a national bank, in the domestic concerns of the government, still more inferior would it probably be, in its financial operations abroad. In these, the state banks could have little advantage over single merchants or partnerships; but the national bank would naturally have a credit abroad, both from the amount of its capital, and its connection with the general government, that no state bank could be expected to possess; and it could, consequently, more easily place money in any foreign country where it might be wanted.

On the whole, the state banks have neither the same ability to facilitate the financial operations of the federal government that a national bank pos-

sesses; and, on various accounts, they cannot be counted upon to discharge these important duties with the same steadiness and fidelity.

In conclusion, it may be remarked, that a national bank, by reason of its large capital and superior credit, may render aid to the government in time of war, that would be impracticable to a voluntary association of state banks. From present appearances, indeed, the federal government, being unencumbered with a public debt, and possessing ever-growing resources from increasing numbers and wealth, would find no difficulty in borrowing any sum of money its occasions might require; but it still might obtain loans from the national bank on better terms than from other capitalists. The most opulent nation now on the globe, and one which, in spite of its enormous public debt, can borrow money on better terms than any other nation, has still found very great accommodation from its national bank; and, on similar emergencies, so should we, from a bank of the United States.

CHAPTER XV.

EXAMINATION OF THE POLITICAL OBJECTIONS TO A NATIONAL BANK.

HAVING considered the objections to a national bank as a commercial and financial institution, let us now examine those of a political character. The doctrines of political economy must never be at variance with the principles of national policy. But, in applying this test, the reasonings of the political economist should be obvious and direct. By subtle and refined theories, those defects which attend every thing human are magnified by our microscopic views into odious and frightful deformities, and we may thus deprive ourselves of substantial benefits through the fear of imaginary dangers.

1. One of the political objections urged against a national bank is, that it tends to increase the power of the moneyed classes, and, by thus embodying it and imparting to it unity of action, we enable it to impede, and even thwart, the government in its most salutary and important functions.

The objection supposes that a corporation, composed of men associated for the purpose of making money, are capable of uniting, and likely to unite, for political objects. On this subject, we must be

guided by experience. We know that the stockholders of a national bank, as well as of every other, may consist of men of all sects and parties; and while, as individuals, they all have their several political preferences and animosities, we also know that these do not induce them to lend money to one man, or to refuse it to another, on account of his politics. Why, indeed, should this be the case in a banking company, more than in an insurance, a canal, or a rail-road company? The character and extent of the means, as well as the inducements, may be the same in both cases; yet such an objection has never yet been made to any other corporation than that of a bank. The motive of self-interest which is admitted to predominate in the case of the other corporations, is supposed, in the case of a bank, to be made subservient to political objects.

A course of action so anomalous ought not to be assented to without the clearest proof. The principal part of the stockholders are either men who have accumulated capital, and retired from business; or wealthy planters, who have saved money from their incomes; or salaried officers, or widows, or orphans; none of whom are likely to be ardent politicians, and are certain not to be of one way of thinking. Nor, if they were, can they be presumed willing to sacrifice their pecuniary interests to their party sympathies. To suppose they would consent to see the profits of the bank used for that purpose, is in opposition to all experience of men's acts. Such of them as may be willing to spend

their money in electioneering, would rather have the credit and the pleasure of disbursing it themselves, than suffer it to be so used by the officers of the bank.

Some will here refer to the evidences of political feeling exhibited by the stockholders, officers, and all others interested in the late bank of the United States; and it will be asked if there was an individual, or at least if there was one out of fifty of the whole number, including a great part of the debtors to the bank, who was not in opposition to the administration. Admitting this to be the fact, it must be recollected that they were then struggling for the existence of an institution which they all deemed important, and that they might very naturally have thought that its preservation was of more importance to them, and to the country, too, than whether the executive functions of the government should be administered by one set of politicians or another. Men must always be expected to withhold their favor from those who oppose their interests; and we every day see elections turning on questions of mere local or even personal concerns, — such as the promotion of a particular canal or rail-road, and sometimes for very inferior objects. In like manner, administrations are supported or opposed, as they are supposed to favor foreign commerce, manufactures, and the like, according to the several interests of the voters.

It might, indeed, be better, if every man would nobly and disinterestedly prefer the public good to

his own. Yet, none but dreamers in morals will expect this; and the mischief of the overruling instinct of self-love will not appear formidable, when it is recollected that these particular interests operate commonly on a small proportion of society, and that by far the larger number can vote on any and every one of them without bias or partiality. Thus, although on any question touching the bank, all who were concerned in that institution might be influenced by their interests, precisely as if the question were concerning a canal, or rail-road, the annexation of Texas, or the right of preëmption to the public lands, yet the rest of the community, amounting to ten, or may be fifty times their number, would be free from such influence. In like manner, the individuals interested in the bank may, on every question in which its profit or safety was not involved, pass an impartial judgment.

To ascertain what was the political influence inherent in the bank, let us ask what it was before general Jackson and his cabinet determined to put down that institution. The answer is, — it was literally nothing. The bank kept the noiseless tenor of its way, meddling as little in the political concerns of the country as any other corporate body of the nation, and was entirely unnoticed by the politician, until, in an evil hour, as some think, and fortunately, according to others, the president of the United States, seven years before the bank charter was to expire, invited the consideration of congress to the question of its renewal, and in

opposition to what was then the opinion of nine tenths of those who had any opinion on the matter, stated that it had failed to furnish the country with the uniform currency that had been expected. In this statement, he was contradicted by a large majority of both houses of congress, at the very time when a majority of both consisted of his friends.

When the interests of the stockholders were thus directly attacked by the president, and when, as they no doubt honestly believed, on unjust or mistaken grounds, because such was the opinion of others who had no particular interest in the bank, it was natural that they should feel not well affected towards him, and should oppose his reëlection. It was to this extent that the bank and its adherents offended, and to this extent every supposable private interest always will offend. Where is the man of the forty or fifty thousand, who hold office under the federal government, who, if he believes that on the success of one party, he will continue in office, and, on its failure, he will be removed, does not desire the success of the party with whom his own interest is identified, and who will not use his endeavors to promote it? These feelings are so natural and universal, that no rational mind has ever expected to see them eradicated.

But, it will be urged, suppose that the president, in the discharge of his constitutional duty, thought proper to bring the subject of the bank before congress, and to express his own views concerning it, granting that they were erroneous, — ought his

own personal merits, and the merits of his administration, to turn on this single point? and it is a strong objection to any corporation, that it creates a separate interest from that of the nation; so that its members, if they believe this interest threatened or endangered, will all unite, and, merging every other national concern in that, systematically oppose the government, right or wrong, and endeavor to change its administration, however wise and patriotic it may be, or essential to the real interests of the nation.

To estimate the force of this objection, we must ascertain what is the extent of the private interests which are involved in those of the bank. Those interests might be considered to extend to the shareholders and to all the officers of the bank certainly, and possibly also to its debtors.

According to an official statement, made by the stockholders at a general meeting in 1831, their own number, including foreigners, females, and corporate bodies, amounted to 4145. The bank then had 25 branches; and, assigning 10 officers to each of these, and 25 to the principal bank, there would be 275 in all. The number of persons indebted to the bank, at any one time, it is not so easy to ascertain; but, if we take the business of the bank of Virginia, at Richmond, as a standard for that of the bank of the United States, it affords us data for a sufficient approximation to the real numbers. It appears, by an official statement, rendered in 1837 to the legislature of Virginia, that the whole number of loans annually made in the

bank of Virginia, at Richmond, during the years 1835 and 1836, was 529; and the amount lent by the bank amounted, on the 1st of January, 1836, to $3,172,527. Let us now apply these facts to the bank of the United States. The amount of its loans, of every description, were, when highest, about 60,000,000; or, we will say, 20 times the amount lent at Richmond. Supposing, then, the number of its debtors to be in the same proportion, the aggregate number would be 10,580. Making, then, no deduction for such stockholders as were also officers, and for such debtors as were also comprehended in the other two classes; and assuming, moreover, that every debtor sided with the bank against the administration — the whole number of persons who could be supposed to have a private interest in the renewal of the charter would stand thus:

Stockholders, . . .	4,145
Officers, ...	275
Debtors, ...	10,580
	15,000

If we suppose one person in five of the population of the United States, excluding the slaves, to be entitled to vote, the whole number of voters at that time was 2,171,577, or somewhat more than 144 times the number of those who have either a permanent or temporary interest in the bank; and, consequently, if the whole 15,000 were voters, their united votes amounted to only $\frac{1}{144}$ part of the votes of the union.

But this interest, insignificant as it seems, even on the preceding liberal estimate, was probably more than neutralized by the interests of numerous rival banks, which were ambitious of becoming the financial agents of the government, and were, at any rate, impatient of the salutary restraint, which we have seen that the national bank exercised over their operations.

If, then, in spite of this antagonist interest, there was a lively and a widely-extended zeal manifested in favor of the bank, as the objection supposes, it must have been that civic interest, which was felt for an institution believed to be convenient to commerce, and useful to the community. This is a legitimate source of influence, proceeding from the same regard to the public welfare, under which the president and his adherents sought to justify their opposition to the bank. It is not the influence of the bank; it is the influence of the love of country, — mistaken, if you please, but still of that sentiment which is the great living principle of republican government. As every citizen is bound to yield obedience to it, every one must be left free to decide on its application. If some would rather reëlect general Jackson, and give up the bank, there were others who would have preferred to retain the bank, if they had had no other objection to the president, than his opposition to that institution. And if there were some, again, who espoused the cause of the bank, principally on account of their opposition to the president, there were others who made their friendly senti-

ments towards that institution yield to their paramount desire to support the president.

The questions of national policy that decide very many, perhaps most, of the elections, are perpetually changing. At one time, the inquiry was, whether the candidate inclined to one or the other of the great European belligerents; at another, whether he supported or opposed the war with Great Britain; and, at a third, whether he supported or opposed a protecting tariff. In one corner of the union, the doctrine of nullification was made a test question; in another, the expulsion of the Indians; and in yet another, the preëmption rights of squatters. If some regarded the recharter of a national bank as a cardinal measure of national policy, there were others who took up a violent antipathy to certain societies, whose members, time out of mind, had held secret meetings for their own exclusive amusement and instruction, — who, once a year, walked in procession, with little silk or leather aprons, carrying candlesticks and other mysterious symbols, — and a part of whom were thought to have hanged or drowned a roguish brother, who betrayed them; and so dangerous did they consider this society, that they would vote for no man who belonged to it; nay, more, — for no man, whether member or not, who would not join in the crusade against these same odious freemasons; and they were numerous enough to bestow seven of the electoral votes for president and vice president on two of their proselytes. In these cases, individuals must be left to the unrestricted

exercise of the electoral franchise, according to their own sense of duty and rectitude.

On all these questions, indeed, many take sides for no other reason than that of supporting or of opposing the administration, according to their respective feelings; and, without doubt, many were in favor of a national bank because the president was unfriendly to it. But the number of those who opposed it for the same reason must have been much larger. Of those who were actuated by their private interests, in supporting the bank, the number, as we have seen, could not exceed 15,000, and probably was not 10,000; while those who supported the administration from the same motive amounted to 40 or 50,000.

One of the proofs of the dangerous and corrupting influence of the bank was, that it had used the money of the stockholders to buy up editors, and to circulate throughout the union pamphlets written in its behalf. When the bank was charged with various acts of malfeasance, by reason of which it ought not to be rechartered, if it had employed advocates to defend it before the public, it would seem to have committed no very flagrant offence, but to have used a very natural and justifiable effort of self-preservation. But, when it is recollected, that it was established for the public benefit, to furnish the community with a better currency, and to be the financial agent of the general government; and that it was urged by the chief magistrate of the nation; that it had not fulfilled the purposes for which it was established; and that its

financial duties could be discharged as well, or better, by the state banks, — the truth of these charges, and the soundness of these views, became the concern of the nation no less than that of the bank.

The bank had the right, always belonging to the party accused, of defending itself; and the public had the right to hear what could be said on both sides of a question in which it had so deep a stake; and, while the voice of its accusers were transmitted to every quarter of the union, with all the aids of the franking privilege, and an obsequious post-office, it became necessary, to enable the people to form a correct judgment on the merits of the question, that correspondent measures should be adopted for circulating the arguments urged in defence of the bank. That was accordingly done. It published arguments to show that the bank had truly performed all that could have been reasonably expected; that it rendered the currency both stable and uniform; that it had so discharged all its financial duties, that the government had not sustained the loss of a single dollar; and, lastly, that the danger from the treasury bank, which the president proposed to substitute, was as real as that from the existing bank was chimerical.

The issue was thus fairly made up between the friends and the opponents of the bank, and the people sat in judgment. Yet men, calling themselves just, were unwilling that both sides should be heard; and, believing themselves republicans, sought to stifle public discussion. The bank was

censured not merely for securing a friendly avenue to the public mind, by granting accommodations to some three or four of the thousand editors of journals, but also for publishing such arguments as had been volunteered in its defence; and the circulation of the opinions of the ablest financier and the most sober-minded reasoner in the United States, who had grown gray in maintaining republican tenets, instead of being regarded as a public benefit, was treated as a species of corruption. Instead of attempting to refute these arguments, the opponents of the bank more warily sought to raise a prejudice against their circulation; and, this being an overt, visible act, it had more effect with the ignorant and excitable multitude, perhaps, than any thing besides. Backed as they were by the energy and the unbounded popularity of the president, they finally triumphed; but it was a victory which has already cost the nation 100,000,000; and the full measure of the mischief we have not yet reached.

The warmth of party zeal has even attempted to compare the means of influence possessed by the bank with that possessed by the federal executive. The annual profits of the bank were about 3,000,000 of dollars. The annual disbursements of the government were more than 30,000,000. Those who receive the bank dividends could receive very nearly if not quite as much for their money, if no bank existed; but, with a large proportion of the officers of the government, their salaries are a clear addition to what they had oth-

erwise gained. It is true, that the bank may have lent money to the amount of 60,000,000; but, besides that many of the borrowers were supporters of the administration, and that many of the others could have obtained equal loans from other banks, there is a wide difference between giving and lending. To most of those who have credit at a bank, the gift of a hundred dollars would be a far greater benefit than the loan of a thousand. The government, moreover, can confer honor and distinction, as well as bestow money; and can thus operate on a powerful class in society, whom the bank cannot reach. Absurd, however, as the comparison is thus seen to be, at a glance, it has been often gravely presented to the people, and has had its influence on thousands.

But, after deducting all who were influenced either by private interest or party zeal, the mass of those who opposed the president's course towards the bank did so because they believed, from more than forty years' experience, that such an institution was highly useful, if not indispensable. This was particularly the case with the mercantile part of the community, who, as a class, do not meddle much in politics, except where the interests of commerce are affected. When, too, we recollect how many were opposed to the bank on the ground that it was unconstitutional, it seems fair to infer that a large majority of the people believed a national bank to be an institution of great public utility and importance; and, but for the constitutional scruples of many, they would have continued

its existence, in spite of all the efforts of the administration.

The interest, then, which has been gratuitously attributed to the direct and sinister influence of the bank was, we repeat, with most people, that interest in the common weal which is the fundamental principle of republican government; and to proscribe an institution, because it happens to present a fit occasion for this laudable sentiment, would put it in the power of the administration to bring into disrepute the most innocent and useful institutions of the country. According to this notable logic, the greater the utility of any institution, and, consequently, the greater the zeal with which it would be defended, the stronger would be the evidence of its undue and pernicious influence.

Let us, by way of illustrating this foundation for the charge of dangerous influence, suppose that the president, instead of assailing the bank, had taken a fancy to make war on steamboats: that he had represented to congress that this new invention was of most mischievous tendency; that it caused great destruction of life, threw many honest and industrious owners and navigators of sloops, schooners, and keel-boats, out of employment, and was dangerous to republican principles, by the very wealth it created; that it tended to benefit the rich at the expense of the poor, and hastened the march of luxury and extravagance; that Cincinnati and Louisville, and even Nashville, already began to vie with Atlantic cities in wealth and refinement, and were, at least, a hundred years

in advance of what they would have been, but for this pestilent invention of Fulton; that, if we would put our republican institutions on a secure basis, we must retrace our steps — lay aside steamboats — return to the Albany sloops, to Mississippi arks and keel-boats, and, with them, to our former simplicity of manners, purity of morals, and to the common level of poverty and republican plainness.*

Had such a communication been made to congress by the president, been again and again pressed on their notice, under a variety of aspects, and been supported by all the more partial and zealous friends of the administration, we cannot doubt that his proposition would have been opposed, not only by the owners of the eight hundred steamboats in the United States, their captains and engineers, but by every one else who was not dependent on executive favor, or disposed to make all things bend to the interests of party; and that, if they should think that this strange doctrine of the chief magistrate was not compensated by his other merits, they would systematically oppose his administration and his reëlection. This, however, would hardly seem to afford proof of the undue political influence of steamboats; and yet, it is precisely that evidence which has been relied on to prove the undue influence of a national bank.

* This parody on the opposition to the late bank of the United States is not so extravagant as it may appear to be. It used to be gravely maintained, by a very worthy gentleman of the same school, that Virginia had been going down hill ever since she had exchanged jigs and bonnyclabber for cotillons and ice-creams.

In short, every great concern involving the interests of many, and on which the federal legislature and executive can act, will influence the wishes and votes of all; and it ought to do so, since government was instituted to promote the welfare of all; and, supposing the interest of each class to have its due weight, they will so far check and regulate each other, that the interests of the greatest number will eventually prevail. This is the theory of our government; and if a part of the citizens have an interest in preserving a national bank, which a majority had previously authorized, these interests, in common with all others, ought to have their proportional influence, and there is no reason to believe they have more.

With respect to the magnitude of the power thus embodied, we may judge how insignificant it is, apart from the interests of the community, since, — when supported by these interests, — by majorities of both houses of congress for four successive years, — by the great mass of merchants, who, in so many ways, experienced its usefulness, — and by a large proportion of the well-informed part of the community, who regarded it as the best safeguard of a paper currency, — the bank still was not able, more than its predecessor, to preserve its own existence against the influence of the executive. In every aspect, then, in which we can view the objection, it seems to be unfounded.

2. Another objection, at variance with the first, is, that a national bank tends to give additional strength and influence to the federal executive,

which is already stronger than the framers of the constitution intended, and, as some think, stronger than comports with the permanence of the government.

This objection has far more show of force than the other, should the charter of a national bank conform to that of the late bank of the United States; according to which, the secretary of the treasury, who holds his office during the pleasure of the president, may withdraw the public deposits whenever, in his opinion, they are unsafe. Now, this power of continuing or withdrawing the use of a large amount of the public money, by which the profits of the bank are so greatly enhanced, is one which, perhaps, ought not to be exercised by the executive, except during the recess of congress. It certainly cannot be so exercised, without giving to that branch of the government strong means of influence and control over the acts of the bank.

This provision in the charter, we may presume, was intended for those extraordinary dangers to which any bank is liable, whether from war, invasion, great and sudden vicissitudes of trade, or infidelity of agents, and not as an instrument for insuring undue subserviency to the wishes of the executive, or as a means of punishing the independence of the bank. It was, however, so used, in the opinion of one half the nation; and it is not easy to imagine a case in which the safety of the public funds (the only consideration which legally warranted the removal) was less endangered. At that time, the paper of no bank in the union was

in as high and general credit, nor was the stock of any other bank as much above par.

Although it may seem extremely improbable that such a case should again occur, and that, with an ordinary degree of discretion on the part of the federal executive, and without an extraordinary degree of impracticability on the part of the bank, the deposits would not again be removed from where the law had placed them, yet the mischief which the objection supposes would not the less exist, if the favor or forbearance of the executive power was purchased by a pliancy, on the part of the bank, to the purposes of the party in power; —if, in short, it should consent to become a political instrument in the hands of the administration.

To prevent this, the power of removing the deposits should be given to the executive only during the recess of congress, and then be exercised by that body. If the bank were thus constituted, while a sufficient degree of independence would be secured to it, to enable it quietly and faithfully to fulfil its commercial and financial functions, there would exist much to produce an amiable feeling and a harmonious intercourse between the treasury department and the bank, in consequence of each being daily benefited and accommodated by the acts of the other. Since the independence of the judiciary power is thought to be secured by the constitutional provision, which places their salary beyond the reach of the other branches of the government, the independence of the bank would

be nearly as well secured against the power of the executive, if its profits could not be materially affected by executive favor; and a greater degree of independence than that seems not at all desirable. A certain degree of dependence on the legislature would be virtually a dependence on public opinion, which would give the community additional security, that the bank would exercise its several functions in as liberal a spirit of accommodation as was consistent with its safety.

3. A third objection is, that the bank tends to favor a moneyed aristocracy, as well as to add to the natural influence of wealth, and is so far repugnant to republican principles. This objection, if it be merely that the bank tends to make the rich richer, applies to every useful and profitable enterprise that can be mentioned; to manufactories, canals, rail-roads, and to all banks whatever, whether state, or national; and it is to this very circumstance that they principally owe their value, since, unless they were profitable to the capitalists who establish them, they would never have existed; and the community would lose all the benefits they confer, which often is many times greater than that which is received by their proprietors.

If, however, the objection go farther, and maintain, as some have rashly asserted, that a bank also tends to make the poor poorer, then the proposition may be unhesitatingly denied. It is not seen how a bank can be injurious to any class of productive industry. If it quickens enterprise, increases the demand for the productions of agricul-

ture, commerce, and manufactures, and facilitates their transmission from the producers to the consumers, as we have seen, then it adds to the fund from which all classes are maintained; and the poor, as well as the rich, have their proportional share increased.

One of the best proofs that the benefits afforded by banks are not exclusive is, if we may trust to the sagacity of self-interest, that mechanics and small dealers are generally as desirous of a bank in their neighborhood as any other class. It is a fact of general notoriety, that a great stimulus is given to building, and other local improvements, by the establishment of banks; and this fact necessarily implies that a greater number of mechanics obtain employment, and receive better rewards. Those who have any thing to sell, find it easier to obtain cash for it, by reason of the bank; and those who go into the market as buyers, are likely to buy upon somewhat better terms; as the bank, by enabling merchants to enlarge their business, tends to lessen the rate of profit. In these two classes are comprehended the whole community.

It would seem to be quite sufficient, in our country, for the recommendation of any course of policy, that it adds to the mass of the national wealth; and, as to the distribution of that wealth, we may safely leave it to the relative industry, talent, and prudence of individuals, together with the laws which regulate successions, to give to each one the share to which he is justly entitled. Unless it could be shown that banks prevent industry,

talents, or skill, from obtaining employment, or from receiving a fair remuneration, the objection must be considered as resting on false and superficial views, or as designedly seeking to take advantage of the ignorance and discontent which are the presumed accompaniments of poverty.

This objection, it must be remembered, applies equally to all banks, and has more force against the state banks than against the national bank, as they may be presumed greatly to exceed it in capital, in every state in the union. But it is unfounded as to all. They all, if well conducted, add to the stock of national wealth, and those individuals obtain the largest share of the addition, who exert the most industry, talent, prudence, and enterprise. If, indeed, there is any difference as to the classes of society, these institutions may be said to favor the poor yet more than the rich, inasmuch as they enable those who are without capital, to obtain the temporary use and profits of it by means of their credit, which is a far greater benefit than merely adding to the capital that is already possessed.

So far, too, as the power, which banks possess of distributing the spare capital of the community, may be considered to give them an undue influence in managing the public concerns, (though this seems to have been egregiously overrated,) it is better that it should be weakened by division, than be concentrated in the state banks; and those to whom power and influence of every description is ever an object of jealousy and apprehension, may

see in a national bank the means of neutralizing the power of the state banks.

It may be remarked, in conclusion, that the political objections which have been made to banks in the United States seem never yet to have been made in the country, whose civil institutions most nearly resemble our own, and whose people are little behind us in political jealousy. From this fact we may infer that most of the apprehended evils, being too minute to be distinctly seen, are, for the most part, the creatures of imagination.

CHAPTER XVI.

THE ADVANTAGES OF TWO OR THREE NATIONAL BANKS OVER ONE.

WHATEVER may be the benefits of a national bank, they would all seem to be increased by having more than one, except that the profits to the shareholders would be somewhat diminished. This division of the privileges and duties of a national bank is recommended by the following considerations:

First,—whatever may be the power and influence which may be possessed by a bank that has a large capital, with branches dispersed over every part of the union, and is the fiscal agent of the government, it would obviously be lessened by being divided. Though this power and influence have been greatly overrated by popular jealousy and party antipathies, yet, as it is still honestly believed by a large mass of our citizens to be formidable, their fears are entitled to respect, and should be quieted if possible. The feelings of a large portion of the people will never be disregarded by a wise and a just government, even when they are founded on prejudice.

Secondly,—the plan would secure to the public the benefit of competition in all those functions in

which a national bank has any advantage over state banks; as in domestic exchange, in furnishing a more uniform currency; and in fiscal services to the government, both at home and abroad. Their profits, then, on the purchase of bills, and the sale of their own drafts, would not only be less than would be charged by the state banks, but at the lowest rates at which they could be afforded.

Thirdly, — the two or three national banks would be salutary and effective checks on each other. We have seen that the state banks, whose excessive issues are so effectually controlled by a national bank, are also a reciprocal check on the latter; but their power could never be so great, both from defect of concert and unity of action, and for want of the important aid that would be afforded by the funds of the government. The national banks, thus equal in capital, in credit, and resources, in all parts of the union, would give the public the same security against the redundant issues that a single national bank has hitherto afforded against those of a state bank; and thus a further answer could be given to those who have objected to a national bank, that, while it restrained the operations of the state banks, it was unrestricted itself.

If the plan were adopted while the principal banks could be established in different cities, each could have branches in all the principal seats of commerce in the other states; and, to prevent the undue influence of the executive in its dis-

tribution of the public revenue, it could be apportioned between them by some practical rule of equality. Thus, the revenue received at New York, being half of what the general government receives from the impost, may be divided between the national banks in that city; and the duties severally received in the other cities could be deposited at one place, in one national bank, and at another place in the other. The course of distribution being thus fixed by law, there could be no room for the operation of caprice or injustice on the part of the treasury department, and no means of appealing to the interests of the banks. To make this distribution, moreover, a matter of yet less importance, the banks may be required to pay a moderate interest for the public deposits, and deduct therefrom a small commission on their transmission of the public funds from a distance, and perhaps, also, on their disbursements. But the policy of the last may be more questionable.

Some may apprehend that these two or three national banks, being so similarly circumstanced as to the state banks, and the rest of the community, would, from a sense of common interest and common danger, coöperate in their whole system of management and policy, so as to prevent the benefits to be expected from their competition and independent action. But, judging by all experience in other analogous cases, we may presume that, in their ordinary dealings, their interests would prevail over their sympathies; and the former, we have seen, are in direct opposition.

They would be rivals for the profits of banking, and each would endeavor to secure to itself as great a proportion of the business of the safest customers as it could, to the exclusion of the other; that combination, in a word, may as rationally be expected among competitors in any other trade as in banks. When there were but two banks in Scotland — the bank of Scotland and the royal bank — there seems to have been a more active and decided rivalship between them, not to say hostility, than has been manifested since the number of banks has been increased. For a considerable time, too, there were but two banks in North Carolina, and two in Virginia; yet there never existed in either state any thing like combination between them; but the efforts of each were directed exclusively to its own interests. In both of these states, too, when there was but one bank, the inconveniences of monopoly were much felt and complained of. Farther, to maintain this separation of interests, and to prevent their uniting in any temporizing measures by way of influencing public opinion, it might be provided that their charters should expire at different times.

While it may be expedient, for the reasons here given, to establish two, or even three national banks, in preference to one, the number could not be further increased without lessening their safety, and, consequently, their utility. With two national banks, placed in New York and Philadelphia, and perhaps a third in New Orleans, with charters framed according to the varied experience of more

than half a century, there is every reason to believe that the United States would possess a currency, which, for cheapness, convenience, and security, would be without a parallel in any other country.

The preceding remarks on the expediency of a national bank, or banks, have been made without the smallest expectation that such an institution will be soon established, if ever; but, as it was believed that we could never have a currency approaching to uniformity, except by a system of banks that pervaded the whole union, and that the federal government was alone competent to create such a system, the author thought it his duty, in a scientific investigation of the subject, to point out the advantages of the system, and to answer its objections, without any false delicacy to the temporary feelings and partial interests that may be opposed to the practical execution.

CHAPTER XVII.

HISTORICAL NOTICE OF BANKS OF CIRCULATION. — BANKING IN EUROPE.

LET us now take a summary view of the banks of circulation in Europe, and the United States, for the purpose of testing, or applying, the principles maintained in the preceding pages.

OF BANKING IN ENGLAND.

The banks in this part of Great Britain must at present exceed a thousand. They consist of,— 1. The bank of England, the only one which is incorporated. 2. Joint-stock banks, the number of which was lately estimated at more than two hundred. 3. Private banks, of which the number probably exceeds eight hundred. In 1813, it amounted to nine hundred and thirty-four.* They each deserve a separate notice.

1. *The bank of England.* This, which has long been the greatest bank of circulation in the world, was established in 1694, for the purpose of assisting the government, then more than usually straitened in its resources, by reason of the recent revolution; and it seems to have been modelled

* McCulloch's Com. Dict., p. 74.

after the bank of Genoa, the first bank of circulation in Europe. Its capital was £1,200,000; and it agreed to lend to the government the same amount, for which it was to receive 8 per cent. interest, and £4000 for the expenses of management. It issued no notes, at first, under £20.

In addition to the difficulties which commonly attend new institutions, the bank had to encounter an active hostility, both private and political. Among other modes of attack, its enemies had nearly succeeded in establishing a rival bank, on land security. A more serious source of embarrassment was found in the recoinage of silver, which took place in 1696. The coin which was thus withdrawn from circulation making money scarce, the bank soon found itself unable to meet the run that was made on it for specie, and was reduced to the necessity, during that year, and part of the next, of redeeming its notes by instalments of 10 per cent., or less; in consequence of which, they became discredited, and sold at a discount of from 15 to 20 per cent.* In the following year, however, its capital was increased by 1,000,000, and, on resuming the prompt payment of its notes, their credit was restored.

The charter was first limited to eleven years. It was afterwards continued, from time to time, commonly for twenty years. Both its capital and its loans have been also occasionally increased, but not *pari passu*, as sometimes one, and sometimes the

* Anderson's Orig. of Com., Vol. III. A. D. 1696.

other, exceeded in amount. In 1816, the capital was £14,553,000, and the debt from the government, £14,686,800.*

By an act of parliament, passed fourteen years after the bank was established, all corporate bodies, and all partnerships consisting of more than six partners, were prohibited from issuing notes payable to bearer on demand. This law, which was suggested by the fact, that a mining company had recently issued cash notes, has had its intended effect of preventing any formidable rivalship to this institution, as a bank of issue; by reason of which, together with its large capital, and its connection with the government, it has always furnished much the largest part of the paper circulation of the kingdom; and, for more than a century after its creation, its notes, with the exception of the brief suspension already mentioned, were promptly redeemed,† and were on a par with gold and silver. But, in 1797, its coin having been greatly reduced by the heavy loans and subsidies granted by Great Britain to her continental allies, and yet more by the popular distrust which the threatened invasion from France then occasioned, the bank, with the sanction of the government, and apparently by its order, suspended the payment of its notes.

* The act of 1833 directs the payment of one fourth part of this debt to the bank, and authorizes a correspondent reduction of the capital of the bank. The payment has been made, but I know not if the corporation has reduced its capital.

† Though, more than once, according to Adam Smith, it has been reduced to the necessity of paying in sixpences.

So well established, however, was the credit of the bank, and so strong the public confidence in its resources, that its paper still continued of equal value with specie, so long as its issues were kept within their former limits. But when, yielding to the temptation of increasing its profits, and, probably, no less to the policy of accommodating the government with temporary advances, it afterwards gradually enlarged its issues, its paper began to depreciate; and, when it had increased to more than double its ordinary amount before the suspension, an ounce of gold, which was worth, at the mint, £3 17*s.* 10½*d.*, became worth, in bank notes, £5 4*s.*, — thus showing a depreciation of more than 25 per cent.

That the depreciation should have been so much less than the seeming addition to the currency, is to be explained by two circumstances. One was, that, after the suspension, the bank issued notes under £5; and this part of its issues sometimes amounted to a third or a fourth of its whole circulation. The other was, that the nation was increasing in population and wealth during the whole time of the suspension, and consequently required an accession to its currency. This demand for additional currency is evinced by a comparison of the issues of the bank since the resumption of cash payments, with its issues before and during the suspension. The average issues of the bank, during four terms of ten years, — from 1790 to 1830, — were as follows:

From 1790 to 1800, . . 11½ millions.
" 1800 " 1810, . . 16¼ "
" 1810 " 1820, . . 25¼ "
" 1820 " 1830, . . 20¾ "

It thus appears that the medium increase of the bank circulation, in thirty years, (from 1795 to 1825,) was, independent of the suspension, from 11½ millions to 20¼; and if from the last we deduct the average amount of notes under £5 which circulated during the last ten years, (about 1¼ million,) the remainder, (19 millions,) showing an increase of 7½ millions from 1795, seems plainly referrible to the intermediate increase of numbers and wealth. Probably, from a half to two thirds of this increase took place during the suspension; so that, of the whole enlargement of the bank circulation from 11½ millions to 25¼ in twenty years, a part supplied the place of sovereigns, in the form of notes of £1 and £2, a part was required to meet the increased demand for currency, and a part was counterbalanced by depreciation.

In 1819, parliament adopted a plan for the gradual resumption of cash payments, which had been suggested by Mr. Ricardo; according to which, the bank was required to redeem its notes, at first, in gold ingots of not less than sixty ounces, and then in coin. The notes were to be restored to their par value, by gradually lowering the market price of gold, according to the following scale:

	£	s.	d.	
In 1820, the ingots were rated at	4	1	0	per ounce.
" 1821, " " "	3	19	6	"
" 1823, " " "	3	17	10½	"

When reduced to the last price, (in May, 1823,) the bank was required to pay in coin. It did not, however, avail itself of the whole indulgence allowed by law; but, having provided a large supply of gold, it resumed cash payments in May, 1821, after a suspension of twenty-four years.

After the numerous failures of the country banks, in 1825, by way of inviting the establishment of joint-stock banks, of greater solidity, the law, which restricted the right of issuing cash notes, was repealed, with the consent of the bank, as to every part of England not within sixty-five miles of London; and, at the same time, the bank established branches in most of the principal towns.

In 1833, the charter of the bank was renewed for twenty years; though the parliament should terminate it after ten years, on giving one year's notice. The act renewing the charter contained many new provisions, of which the most important were, — 1. The notes of the bank were made a legal tender, in favor of all, except the bank and its branches; 2. Bills of exchange and promissory notes, not having more than three months to run, were declared not subject to the usury laws; 3. Weekly accounts of the amount of the liabilities and assets of the bank were required to be rendered by the bank to the chancellor of the exchequer.

The loans of the bank are always more than twice its capital, and sometimes reach to three times its amount. It is able to extend them thus far, by reason of its exclusive privileges, of its being the sole depositary of the funds of the government, and of its always having on hand a considerable surplus of undivided profits. It receives but 3 per cent. for its permanent loan to the government; but, for its temporary advances on exchequer bills, and its discounts of negotiable paper, it receives an interest of from 4 to 5 per cent., according to the state of the money market. In addition to the interest on its loans and discounts, the bank receives an annual allowance from the government, for its management of the public debt. Its dividends for the last hundred years have varied from 4½ to 10 per cent. Its profits were greatly increased during the suspension; and, what is remarkable, the chief source of those extra profits arose from its advances of its own irredeemable paper, in exchange for the exchequer bills issued by the government. The paper of the bank, which had been justly preferred to that of the government, because it was readily converted into coin, continued to receive the same preference, when it no longer had any other superiority than what was derived from the illusory influence of habit on opinion.

The average condition of the bank for three years — from 1829 to 1831 inclusive — may afford a fair specimen of its ordinary operations, and of

the state of its assets and its liabilities. It is as follows:

Liabilities.		*Assets.*	
Capital, . . .	£14,553,000	Permanent loan to government, .	£14,686,800
Notes in circulation,	19,481,308	Securities, public,	19,790,622
Deposits, public, .	4,190,903	" private,	4,864,119
" private, .	5,326,943	Bullion, ...	8,101,473
	43,552,154		£47,443,014
Surplus, or *rest*,	3,890,860		
	£47,443,014		

Let us now compare the condition of the bank of England, as exhibited by the preceding statement, with that of the banks in the United States, in January, 1837. But, in making this comparison, it will be proper to add the surplus, or *rest*, to the capital of the former, because it makes a corresponding addition to the means of the bank, in proportion to its amount. With this addition, the efficient capital, for those three years, must be estimated at £18,443,860.

	Bank of England.	*Banks of the United States.**
Proportion of loans to capital,	213 per cent.	180 per cent.
" circulation to capital,	156 "	91 "
" specie to capital,	$43\frac{9}{10}$ "	13 "
" " to circulation,	$28\frac{1}{4}$ "	$12\frac{2}{5}$ "

It appears, from the above parallel, that though the proportion of specie in the bank of England is more than twice as great as in the United States, when compared with the circulation, and more than three times as great, when compared with

* See Appendix, No. VII., Table V.

the capital, yet both its issues and its loans are also proportionally greater; so that it is, at once, less exposed to the risk of stopping payment, and it is more efficient in the two great functions of supplying a cheap currency, and of accommodating the public with loans. It owes its superiority in these respects partly to its exclusive privileges and its connection with the government, and partly to its having originally possessed a real capital of gold and silver; whereas, much of the bank capital in the United States is, as we have seen, merely nominal, and has no other foundation than credit.

2. *Joint-stock banks.* In consequence of the frequent failures of the private banks, and the general distress and embarrassment such failures produced, the restriction of banking copartnerships to six persons was repealed by the legislature in 1826; whereupon, various large associations for banking were formed; and their number has been, since that time, gradually increasing. They have not, however, answered the expectations of the public; and they were thought, by their excessive issues, to have greatly strengthened, if they did not produce, the wild spirit of speculation which prevailed in England in 1836, and which had no little influence in cherishing the same spirit in the United States.

These companies are not chartered, and do not differ from the private banks but in the greater number of their partners, and in their consequent more systematic organization and government.

Their shareholders are liable for the debts of the company, as in any other copartnership. If this liability, on the one hand, operates to check their rashness, it, on the other, discourages men of great prudence and of substantial wealth from becoming partners; and theorists in England are not agreed, whether the public gains as much one way as it loses in the other. It would seem, from the example of the banks of Scotland, that unlimited liability is not inconsistent with the highest degree of prudent management and stability of banks; and that the acknowledged defects in the English system must be accounted for in some other way. The same remark may be made as to the security which some would require for their issues, as no such security is given by the Scotch banks.

3. *Private banks.* The number of these, which Mr. Thornton states to have been three hundred and eighty-six in 1800, is now believed to be upwards of eight hundred. Their notes in circulation are commonly about double those of the joint-stock banks, and one third of those of the bank of England; though those in London and its vicinity are not banks of issue. Many of them pay interest on deposits. In favorable seasons, when their deposits are large, these banks are often tempted to distend their issues too far, and to engage in speculations in stock, and other hazardous adventures, of which failure is but too frequently the consequence. The temptation to abuse the credit which an established banker possesses is too strong, it would seem, to be generally resisted; and the

mischief done by those who yield to it is not compensated by the prudence of the much larger number who withstand it. If so, the privilege of banking should never be granted, except to those who can be effectually prevented from engaging in any more hazardous speculation than that of lending money.

The banks of Scotland would deserve a conspicuous place in this review, if they had not been already fully noticed. They have been as conspicuous for their usefulness as they have been for their prudence and stability.

BANKING IN FRANCE.

1. *The royal bank of France.* The first bank of circulation in France was established two-and-twenty years after the bank of England; and, though it lived little more than four years, it became more memorable than any other, from its connection with the most extensive and ruinous scheme of speculation which history records.

This bank, which has given celebrity to its founder, — John Law, a Scotchman, — was established in 1716, under the auspices of the duke of Orleans, then regent of France, for the express purpose, as some suppose, of wholly or partially paying off the public debt, — then amounting to 2,000,000,000 of livres, and of which the government was unable to pay the interest.

Law had, before he left Scotland, written a book on the subject of money and trade; and the principles he therein maintained, no doubt, influ-

enced him in the execution of his great financial schemes, and thus contributed to the wide-spread ruin that attended their failure. With some just theory, expressed with shrewdness and force, he mixed up the following untenable positions:— That money owes its value to the public confidence; and that paper, or any thing else, may answer this purpose as well as the precious metals; (the first, as well as the last, he regarded as the mere signs of wealth:) that land was a better commodity for money than silver, and that the currency of a country might be increased to the whole value of its lands: that the effect of such an increase would be not depreciation, but merely a lowering of interest, by which trade would be encouraged, and wealth augmented.* The great number of persons, who, from that day to this, have supported similar fallacies, would seem to show that they are as plausible as they are dangerous.

The capital of Law's bank was 6,000,000 of livres, divided into twelve hundred shares of one thousand crowns each; and its notes soon obtained a general credit and currency. Two circumstances mainly contributed to their early success. One was, that the government, according to an habitual abuse of the royal privilege, was then calling in the gold currency for a recoinage; and the louis d'or, which, when restamped, the government meant to pass for 20 livres, it received at no more than 16.

* Law on Money and Trade, p. 188, &c.

The bank gave a higher price for these coins than the government, and thus received many in exchange for its notes. The other favorable circumstance also grew out of an abuse of the royal prerogative. The marc of silver, a determinate quantity, had been sometimes made equivalent to a greater, and sometimes to a less, number of livres, at the pleasure of the crown; so that all contracts in livres (the general money of account) were exposed to the risk of these alterations in their value. Law therefore prudently made the notes of his bank payable in livres *of the same weight and fineness* as the current coin at the date of the note.

These judicious measures, added to the intrinsic recommendations of paper currency, when not used to excess, soon brought the notes of the bank into such general request, that, out of Paris, they commanded a premium of from 1 to 1½ per cent.

In the following year, (1717,) the rights of a company long before incorporated for the purpose of trading to Louisiana and Canada, and which were alleged to have been forfeited, were transferred to Law, to erect a new company; and then, if not before, the plan was formed of paying off the public debt by the joint aid of the company and the bank.

Books were immediately opened for subscriptions to this *Company of the West*, or *Mississippi Company*, to the amount of 100,000,000,000 of livres, in shares of 500 livres, payable in a part of the public debt, which was then passing at about 30

per cent. of its nominal amount. The shares were soon subscribed; and, as the government then punctually paid to the company the interest (4 per cent.) on these 100,000,000, the company was able to make a correspondent dividend on its capital; that is, 4 per cent. on its nominal amount; by reason of which, the shares, which had cost in the market but 160 or 170 livres, now rose to par, or 500 livres; and the rise was imputed, by an undiscriminating public, to Law's financial skill, and the operation of his bank.

About the close of the succeeding year, the regent, by way of giving yet greater credit to the bank, and of enlarging the sphere of its operations, paid off the original shareholders, and converted it into a royal bank. The notes it had then circulated amounted to 59,000,000 — near twelve times its capital, but not quite a twentieth of the current coin of the kingdom, which was then estimated at 1,200,000,000.

It would seem that the regent already anticipated inconvenience from the tenor of the notes first issued; and, in those issued by him, it was changed to a simple promise to pay the bearer the stated number of livres *in silver coin*. The reason assigned for this change (for governments rightly think, that, with the mass of mankind, a bad reason is better than none) was, that the bank money, instead of being liable to perpetual fluctuations, as it had been, when compared with the livre, should be thereafter fixed. It is said by Stuart, Law's apologist, that he strenuously opposed this change.

Although this alteration in the tenor of the note was calculated to excite distrust, it seems not to have had that effect; but the bank paper retained its credit, notwithstanding the large additions which the regent made to its amount. It is even asserted by contemporary writers, that their credit seemed unimpaired throughout the year 1719, though the issues of the bank then amounted to 1,000,000,000!*

The first project of the regent and Law is supposed to have been, to pay off portions of the public debt with the coin which was constantly flowing into the bank, in consequence of the premium it bore over coin; and in this way the regent might obtain the use of the whole coin of the kingdom; and that the money thus paid to the public creditors would gradually return to the bank, in the payment of the public revenues,—or, at least, enough of it to redeem such notes as should be returned to the bank.

It was not foreseen by them, that no considerable addition could be made to the currency, without depreciating it; and that such large issues of paper as their plan contemplated must necessarily drive gold and silver out of the country. Accordingly, it was found, soon after the regent took charge of the bank, that coin did not continue to flow into the bank as at first; and it therefore became necessary to change their plan, and to

* Encycl. Meth., Art. *Banque Royal de France.* Stuart says the issues in 1719 were 769,000,000. Perhaps this was the amount in actual circulation.

adopt one by which they might use the notes of the bank to discharge the public debt, without raising a suspicion of their credit. To effect this purpose, their plan was, for the regent to purchase shares of the Mississippi Company with the notes of the bank; then borrow of the company these same notes at a low interest, and with them, when thus endowed with a false credit, pay off the public creditors. By throwing the shares into the market, the regent might withdraw the notes from circulation. The result of these operations would be, that the public creditors would find themselves transformed into shareholders in the Mississippi Company; the government would have transferred a part of its revenues to the company, instead of owing all of them to its creditors, and be a gainer, first, by the lower interest paid to the company, and, secondly, by the advance the shares would naturally experience, when so large an addition had been made to the currency by paying off the public debt.

In the execution of this vast scheme, which it seems as difficult to reconcile with uprightness of intention as soundness of judgment, the bank proceeded to make new notes, and the company to create new shares, to raise the value of which, every expedient was resorted to. In May, 1719, Law's company was incorporated with the East India Company. In June, the mint was transferred to it for 50,000,000; and, to give it a supply of cash, fifty thousand shares were sold for 550 livres a share. A few ships were then purchased, to aid

in deluding the credulous public with the hope of gain from traffic; and, in the succeeding month, 50,000 additional shares were sold at the advanced price of 1000 livres a share.

The spirit of speculation being now called into existence, no time was lost in profiting by it. In August, the company farmed all the public revenues, and it agreed to lend to the government 1,600,000,000 at 3 per cent. On the faith of this arrangement, it publicly declared itself able to make an annual dividend of 200 livres a share. As interest was then 4 per cent., the shares, with such a dividend, would be worth 5000 livres; and they immediately rose to that price.

The bank continued to fabricate more notes, as the company had continued to create more shares, until, in October, 1719, the shares amounted to 624,000, and, by the 1st of May following, the notes amounted to 2,696,400,000 livres! The scheme that had been previously concerted being now ripe for execution, the regent became the purchaser of the new shares with the notes of his bank, and then borrowing back the same notes of the company, he, with them, paid off the public debt. The great object being thus effected, he, in February, 1720, reunited the bank with the company.

The effect of these financial operations on the community was immense. The large fortunes which had been made by the first subscribers to the Mississippi company, whose shares had, in the course of a single year, (from Sept. 1718 to 1719,)

risen from 170 livres to 5000, produced a mania for speculation and stock-jobbing that was without example, and which attracted men of capital, and adventurers from all parts of Europe to Paris, to share in its enormous profits. This real accession of wealth, added to the redundancy of the bank paper in circulation, raised the price of every species of property, and thus deluded the public with the belief of extraordinary national prosperity. Among other consequences of the depreciation of money, land sold at fifty years' purchase; and, consequently, as so large a part of the national capital yielded but 2 per cent., that became the market rate of interest for large sums, and the shares of the company, which the credulous public estimated at 200 livres a year, accordingly now rose to 10,000 livres a share.

But this state of things could not last. The depreciation of money, necessarily tending to expel gold and silver from the kingdom, soon began to be felt at the bank. To counteract the apprehended diminution of these metals, every device which Law's ingenuity could suggest, or the power of an arbitrary government could enforce, was resorted to, for the purpose of retaining the coin in the bank, and of replenishing its coffers. Bills of exchange were required to be paid solely in bank notes. Public officers were to receive them in preference to coin. The value of the livre was greatly reduced in value, then raised, and lowered again, to induce persons to deposit their specie (the value of which was thus suddenly and capriciously

changed) in the bank, as a place of safety. These expedients proving insufficient, it was at length declared penal for any one to have more than 500 livres in his possession, or any articles of gold or silver, or to make any payment for more than 100 livres except in bank notes; and domiciliary visits were enjoined on all public officers, for the purpose of enforcing these tyrannical edicts. If we had no other data for estimating the motives of the authors of the scheme, we may judge of the probity of their intentions by the means they adopted for their execution.

These harsh measures brought some coin to the bank, but not enough to counterbalance the previous drain, and that which was still going on by the conversion of small notes into specie. Nor was this all the difficulty in the execution of the plan. After the shares rose to 5000 livres, and yet more to 10,000 livres, many of the original holders were tempted to sell out, and the number thus thrown into the market at once, interfered with the sales of those belonging to the government, and tended to lower their price. Money, too, would recover somewhat from its extreme depreciation, both by the export of coin, and by the withdrawal from circulation of those notes which were paid to the regent for shares; and as money rose in value, the market price of shares would fall. Had the project, then, been an honest one, these inherent and insuperable defects must have prevented its complete execution. Accordingly, in May, 1720, its authors, finding it impracticable

either to sustain a paper currency, which then amounted to 2,235,000,000, or to withdraw it from circulation, reduced its value one half, by seven successive reductions, to take place between May and December. This royal edict broke the spell which had hitherto bound the people of France, and the day after its promulgation, bank notes ceased to have circulation.

The government, seeing the fatal consequences of its last decree, repealed it six days afterwards; but the credit of the notes had received its death blow, and could not be revived. After several ineffectual attempts to restore it, their circulation was formally suppressed in October.

On the winding up of this colossal scheme of stock-jobbing and fraud, it appeared that, of the 2,696,000,000 of notes struck off, 700,000,000 were found in the bank, and the rest were in circulation. The cash in the bank amounted to 90,000,000, which were used to pay off notes to the same amount; and the greater part of the residue were funded by the government, at an interest of from 2½ to 2 per cent., and a part remained a *caput mortuum* in the hands of its owners. The holders of the notes thus lost about one half of their nominal value by the bankruptcy.

The loss sustained by the shareholders of the company was much greater. Of these shares, 200,000 were in the hands of the community, as the remaining 424 were found to be in the possession of the regent. The affairs of the company were in utter confusion after the explosion of the

scheme; but when they were brought to a final adjustment with the government, in 1725, their whole capital — all that remained from the wreck of their splendid hopes — amounted only to 137,000,000; so that, if we estimate the 200,000 shares at the price they had actually borne a short time before, the loss of their holders amounted to 1,863,000,000! Besides the thousands and tens of thousands who were thus reduced from affluence to penury, 500,000,000 of coin are computed to have found their way to foreign countries; the government was pennyless; confidence between man and man was destroyed; in the unsettled value of money, no one knew in his dealings what to ask, or what to give; and France, lately thought to be overflowing with wealth, now presented one general scene of poverty, distrust, and wretchedness.

The gambling spirit which the Mississippi scheme had engendered in France, extended soon after to England, and manifested itself in the South Sea scheme, and a thousand projects yet more visionary. It did not, however, produce the same mischief there, since it was not accompanied in that country, as in France, with an increase of currency.*

2. *Caisse d'escompte.* The French nation had suffered so severely from this experiment, that no

* In this condensed view of the Mississippi scheme in France, I have been guided chiefly by Sir James Stuart, and the Encycl. Methodique. An excellent summary has been given of it by Storch, in his Cours d'Econ. Polit., Vol. 4, p. 130.

further attempt was made to establish a bank of circulation for more than half a century. But, in 1776, one was established for the double purpose of making loans to the government, and of discounting mercantile paper, with a capital of 12,000,000 of livres. It succeeded well at first; but, after a few years, its directors were tempted to abuse their prosperity, and extend its issues too far; in consequence of which, it was, in 1787, unable to redeem its notes. The government afterwards repaid the money it had borrowed of the bank, from the proceeds of confiscations in 1789; but as it was not found to be suited to the times, its affairs were wound up, and the company was dissolved.

In 1784 and 1785, this bank afforded the materials and the occasion of an active scene of stock-jobbing, which its directors purposely promoted, knowing that the price of stock would rise with its annual profits, and that while interest was 5 per cent., every livre added to the half yearly dividend would add 40 livres to the value of the stock: they were induced to make their dividends beyond their profits, convinced that the shareholders would gain more by the rise in the market price of the stock, than they would lose by the diminution of their capital to augment the dividends. Their scheme succeeded; the stock rose, and the speculators profited by the rise at the expense of the subsequent purchasers. We here see the propriety, and, perhaps, the origin of that wise provision in most modern bank charters, that

banks, in making their dividends, shall never exceed their profits.*

3. *Bank of France.* This was the next bank of circulation, and, until lately, the only one in that extensive and populous country. In 1800, a bank was established in Paris, with a capital of 30,000,000 of livres, in shares of 1000 livres; but several other banking associations having been formed about the same time, they were all suppressed except one, which was called the Bank of France, and the capital of which was then extended to 45,000,000. In consequence of its previous advances to Napoleon, it suspended payment in 1805, but resumed it in the following year. Its capital has since been increased to 90,000,000. Its bills have little circulation out of Paris, and it issues none less than 500 livres. In 1814, when the allies had possession of Paris, it withstood a run, by limiting its payments to 500,000 livres a day, and by paying not more that 1000 livres to the same individual.

Within a year or two, other banks of circulation have been established in France; and one at Havre, in particular, deserves to be noticed, as its charter, granted in August 1837, seems to contain all the more important guards which experience has recommended in banking.†

The principal banks of circulation, in the rest

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* Storch, IV. p. 151.

† For an abstract of this charter, see the Financial Register of Aug. 22, 1838.

of Europe, will be more succinctly noticed.* They are,—

The Bank of the Netherlands. This was established at Amsterdam in 1814, and is modeled after the Bank of England. Its capital was at first 5,000,000 of florins, but it was increased, in 1819, to 10,000,000, in shares of 1000 florins.

The Bank of Vienna. This is a government bank, and was established in 1703. Its funds having been too liberally used to pay the public creditors, it stopped payment in 1797, after which its notes became a depreciated paper money, so that, in 1810, 1 florin in silver was worth 12 or 13 in paper. At length, when the amount of this paper had swelled to 1,060,000,000 of florins, they were reduced to a fifth of their nominal value, and a new paper money issued according to that scale.

In 1816, a new bank was established, called the *Austrian National Bank*, for the purpose of yet further reducing paper money, and of assisting commerce. Its capital consisted of 100,000,000 of florins in paper, and 1,000,000 in coin. The paper to be exchanged for government bonds, bearing an interest of 2½ per cent., which bonds are to be gradually discharged by the government. It is a bank of issue, as well as of discount and deposit, and it makes advances to the government.

The Bank of Berlin was founded in 1765, and it issues bills from 4 livres to 1000. It redeemed

* For the facts in the following notices I am indebted to Storch's *Cours d'Econ. Pol.*, and Kelly's Cambist.

its notes punctually until 1806, when the French took possession of Berlin. It afterwards recovered its credit, and is now managed with great prudence and judgment. No bill is discounted on which there are not three responsible names, or which has more than two months to run, and no debt can be prolonged beyond that time.

The Bank of Copenhagen was established in 1736. Having issued more notes in making advances to the government than it was able to redeem, they finally became a depreciated paper money. The institution then became a royal bank; and all specie being driven out of the country by its notes, measures were taken to reduce their amount.

In 1813, a new bank was established, called the *Royal Bank of Denmark*, for the purpose of reducing the paper money. In 1817, it was made a *national bank*. Its notes were substituted for the paper money, and they are gradually redeemed. When the redemption is complete, the bank will then issue notes payable to bearer, on demand. The capital of the bank is 30,000,000 of Rigsbank dollars.

Bank of Russia. The principal bank of circulation in Russia, if not the only one, is the assignation bank at St. Petersburg, which has branches in all the principal towns of the empire. It was established in 1770, and, in 1788, it became an imperial bank. Its notes constitute the chief currency of the country, though they have depreciated to about one fourth of their nominal value.

Their whole amount in circulation in 1814 was, according to Storch, 577,000,000 of roubles, which he considered equivalent to 144,000,000 of roubles in silver. The government has wisely set about reducing their value, and, in 1820, had withdrawn from circulation 153,000,000.

The Commercial Bank of Russia is the chief bank of discount and deposit at St. Petersburg, but it is not a bank of issue. It is modeled after the bank of Hamburg.

CHAPTER XVIII.

OF BANKING IN THE UNITED STATES.

It will not be necessary to say much on this subject, as the banks of the United States have been already copiously referred to for the purpose of illustration. There are, moreover, tables in the Appendix, which exhibit their present condition in detail, as well as somewhat of their past progress, and which will be found pregnant with instruction to all who are familiar with the subject.

Banking has here advanced with rapid strides, and at a continually accelerated pace. In the course of forty-eight years it has increased from about 19,000,000 to 317,000,000; and the increase, in the last eight years — from 145 to 485,000,000 — has not only been far greater in amount, but in a greater ratio, than in any eight years before. Thus, in the use of stimulants, every succeeding dose, though larger than those which preceded it, creates the desire, and almost the necessity for a further increase. There is much in this to make our statesmen and legislators pause and reflect.

The first bank in the United States was that of North America, established by the old congress, in 1781, and afterwards continued by the state of Pennsylvania. Its capital was $400,000; and con-

gress then experiencing great financial embarrassment, as paper money had now ceased to circulate, and the country being without a circulating medium, the bank afforded great relief both to the confederacy and to the community at large. Its capital was afterwards increased to $830,000, under the authority to augment it to $2,000,000, and its charter was continued from time to time.

In 1791, a bank of the United States was established by congress, with a capital of 10,000,000, in shares of $400, of which only one fourth was required to be paid in gold or silver, and three fourths in public stock. Notwithstanding this disadvantage, as the bank had at first little rivalship in any state, and in some none at all, and as it had the benefit of the public deposits, its neat profits averaged 8⅔ per cent. These were increased by the gradual conversion of its stock into active capital. Its charter expired in March, 1811.

The political opposition which this bank experienced from the first, partly because it was considered to have been unauthorized by the constitution of the United States, and partly because of the favor with which it was viewed by the federal party, created so strong a prejudice against all banks, that, in some states, it for many years prevented their establishment. This prejudice, though greatly abated, still retains much of its original force.

When this bank was established, the whole number of banks in the United States was but twelve, with authorized capitals to the amount of

$18,935,000, and when its charter expired, the number had increased to eighty-nine, whose capitals were $52,610,601.

In 1814, almost all the banks in the union suspended payment, and the confusion and depreciation of their notes which then ensued favored the establishment of a second bank of the United States in 1816. Its capital was 35,000,000, in shares of $100. This capital, as in the former bank, was paid one fourth in coin, and three fourths in stock, which the bank might sell at the rate of $2,000,000 a year. Though its affairs were mismanaged, and it sustained some heavy losses in the first years after its establishment, it was afterwards conducted with great skill, prudence, and success. It established branches in nearly every state, and bought and sold bills of exchange between all parts of the union, to an immense amount, because the low rate of its premiums and discounts gave to it almost a monopoly of this branch of business. While it rendered this and other important services to commerce, it was the general financial agent of the government through nearly the whole term of its existence, and transmitted the public revenue to whatever points it was wanted, with equal promptitude and certainty, and without charge. Its charter expiring in 1836, it was then dissolved, after ineffectual attempts of both houses of two successive congresses to counteract the opposition of the president, and to renew its charter. The same corporation afterwards obtained a charter

from the state of Pennsylvania, and now has branches in several of the states.

On the dissolution of this great corporation, and even when it was only expected, banks were greatly multiplied in many of the states, so that the number, which, in 1830, had been three hundred and thirty, with 145,000,000 of capital, had, on the 1st of January, 1838, swelled to eight hundred and twenty-nine, with capitals to the amount of 317,000,000. So great an increase of banks, and the consequent distention of the circulation, contributed, with other circumstances, to the general suspension which took place in 1837. All those in good credit have since resumed, or are on the point of resuming, cash payments; and it remains to be seen whether the consequences of their former imprudence will teach them caution and moderation, or the unwonted forbearance of the public will embolden them to a similar career of rashness, which, if often repeated, must prove as fatal to themselves, as injurious to the community. The transition from suspension to a depreciated paper money would then be inevitable.

In January, 1838, the whole bank capital of the United States was 317,000,000; the circulation and deposits, 200,000,000; the bank loans, 485,000,000, and the specie in the banks, 35,000,000.

Let us now advert to some of the local diversities in banking; for which purpose we will consider the state banks according to the five great geographical divisions of the United States, as the

banks in each of these divisions have some common features of resemblance. The more important points of difference of the individual states, will be separately noticed.

I. BANKS IN THE EASTERN STATES.

Banking has been pushed to a greater extreme in these states, than in any other part of the union, except in the southwestern states. In January, 1838, New England, with a computed population of about one seventh of the union, contained three hundred and twenty-one banks out of eight hundred and twenty-nine, and more than one fifth of the whole banking capital, or about $30 to each inhabitant.

Of the six states which compose this division, Rhode Island has the greatest amount of capital for its population, it being now little short of $90 per head. The proportion of its circulation to its capital is 41 per cent., and of its loans, 136 per cent., which proportions are less than they are in any other division; thus showing that its capital is less efficient than in any other; and this, too, when the proportion of its specie is unusually small. Perhaps the difference is owing to there being a greater proportion of fictitious and nominal capital there than in the other states. Its system would be a very expensive one, from the great number of its banks, if they were not conducted upon a plan of the most rigid economy. Of its sixty banks, many have perhaps but one salaried officer, a cashier, whose annual stipend ranges from

300 to 600 dollars. Indeed, many of its banks can be regarded as little more than cashiers and book-keepers for particular manufactories.

Massachusetts is next to Rhode Island in the number and amount of capital of its banks. In 1828, its legislature, by way of imposing a salutary check on their further undue multiplication, passed a general banking law, which provided that no bank should thereafter go into operation, unless half its capital was previously paid up in gold and silver. But the law seems to have defectively provided for its own execution, as, in many of the banks since erected, this prerequisite is said to have been evaded by means of specie temporarily borrowed of other banks for the purpose. The consequence has been, that of the bank failures which have taken place in this state, a part have been created since the passage of this law.

In Vermont, banking has been pursued with more moderation, and apparently with more safety, than in any other of these states. It is the only one in which there has been no bank failure.

In this state, as well as in Maine, New Hampshire, Connecticut, and Rhode Island, the example of New York has been followed, in appointing commissioners for inspecting the condition of the banks, who must always prove some check on the undue extension of bank loans and issues. Their published reports keep the public mind more alive to these institutions, and not only prepare it to make occasional reforms in the system, but enable it to found its reformation on experience.

The prevalent errors in banking, in these states, appear to be these: — The legislatures have not been sufficiently careful to discriminate between real and nominal capital; and, while the shareholders have gone through the form of paying up the stock of the bank, it is too often nothing but form. In a few instances, stock notes have constituted the chief part of the capital.* Their banks are also too numerous, though the capital had been real. This part of the machinery of commerce has thus been, at once, more expensive, and more easily deranged. By reason of the excessive competition induced by the undue multiplication of banks, arts and devices are resorted to, for the purpose of obtaining an undue share of the circulation,† of eluding responsibility, and eking out their profits, by which the currency is unnaturally distended, the public is deceived, and the safety of the banks themselves put in jeopardy. In general, the same capital will be more safe, as well as more profitable, if put into one bank, than if distributed among several. After the number of banks is sufficiently increased to secure to the public the benefit of competition, it seems as unwise to multiply them farther, as it would be to make an unnecessary addition to the courts of justice, colleges, canals, or any other public institutions.

* Gouge on Banking, p. 155.

† See Mr. Woodbury's Report of Jan. 8, 1838. Reports to the legislatures of Connecticut, Rhode Island, &c., in 1837.

II. BANKS IN THE MIDDLE STATES.

Though the number of banks is not so great in this division as in the New England states, the capital is much larger, and a smaller proportion of it is nominal. In January, 1838, its capital was 81,000,000, its note circulation and deposits 61,000,000, its loans 127,000,000, and its specie about 10,000,000, exclusive of the Pennsylvania Bank of the United States, which would add about 40 per cent. both to the assets and liabilities.

This division, comprehending the three largest cities in the union, — New York, Philadelphia, and Baltimore, — contains the most wealth, possesses the most commerce, and consequently has the most occasion for banks; for, though these institutions are a great assistance to trade, they must rather follow than precede it. Nearly one half of its capital, (exclusive of the bank of the United States,) and more than one half of its loans, circulation, and specie, are in New York.

This state has made some important innovations in banking. One of them is the safety-fund scheme, which has been already mentioned, and which no state has adopted farther than to appoint commissioners for inspecting the condition of the banks. It has been found to afford no security against suspension, as its framers intended, where many of the banks are disposed to take that course; for the suspension in 1837 begun in New York, — the only state in which the system prevailed.

Another more important change is now in a course of experiment, under a law passed in July,

1838, by which the privileges of a corporate body, as to limited liability, of suing in their associate character, &c., are extended to all voluntary associations formed for the purpose of banking, provided they deposit with the comptroller of the state public stocks and mortgages to the amount of the notes they mean to issue, which notes are furnished by the comptroller. These banking partnerships are thus endowed with extraordinary rights, and are subjected to extraordinary restrictions; and it remains to be seen, whether the last will be sufficient to prevent an abuse of the first.

That feature of the law, which requires a pledge of stocks or mortgages to the amount of the circulation, has been recommended to some, and was probably suggested by the examples of the first and the second bank of the United States, (three fourths of whose capital consisted in stock,) and of the Bank of England, which has always held government stock to the amount, or near the amount, of its capital. But some important diversities between those cases and this seem to have been overlooked. In the first place, as to the banks of the United States, though three fourths of the capital of the banks was received in stock, yet that stock might be sold or pledged for specie, as fast as it was required for banking purposes; and this conversion actually took place, as to the chief part of the stock, in both banks, which is what cannot be done under the New York law. By this means, together with their being the chief depositary of the federal government, they were

soon able to extend their loans and circulation as far as if their capital had originally been wholly in gold and silver.

In the second place, as to the Bank of England, its original capital was gold and silver; and it was by means of the paper which its stock of the precious metals enabled it to circulate, that it was in a situation to make so large a permanent loan to the government, and to lend to a yet larger amount, either by advances on exchequer bills or on mercantile paper. We have seen that the bank, by reason of its peculiar advantages, is able to extend its loans to the amount of 270 per cent. on its capital. When, then, it has purchased stock to an amount equivalent to its capital, (that is, 100 per cent.,) it is able to make temporary loans to a farther amount of 170 per cent.

But the banks created under the new law of New York, instead of having their whole capital in gold and silver, which may support the credit of their circulation, have the chief part of it in stock, which can make no addition to their profits, except the interest it may yield, and can furnish them with no means whatever of enlarging their loans, or of adding to their specie in a season of difficulty. They thus begin with buying stock; whereas, the Bank of England ends with it; so that, while they buy stock with their capital, the bank buys it with its credit.

The difference between the two plans may be seen, by comparing a bank constituted like the Bank of England with another created under the

law of New York. Let us suppose the capital of each to be a million of dollars; but that of the first to consist altogether of coin, and that of the last to be three fourths stock, and one fourth coin. Let us farther suppose that the stock yields 6 per cent., that the banks are able to extend their loans to twice the amount of their specie capital, and that their expenses are 2 per cent. on the capital. Their several profits will then be as follows:

First Case.

Of the $2,000,000, the bank is able to lend 1,000,000 vested in stock, at 6 per cent., ...	$60,000
$1,000,000 in discounting paper, at 6.40 per cent., . . .	64,000
	124,000
Deduct, for expenses, 2 per cent. on the capital,	20,000
	$104,000

which is 10$\frac{2}{5}$ per cent. profit on the capital.

Second Case.

Of the million of capital, $\frac{1}{4}$, or $750,000, in stock, at 6 per cent., is	$45,000
The remaining fourth ($250,000) in coin * sufficient to discount $500,000 at 6.40 per cent., ...	32,000
	77,000
Deduct, for expenses, 2 per cent., ...	20,000
	$57,000

or an interest of only 5$\frac{7}{10}$ per cent.; and, by a small

* This is the proportion required by a banking bill now under discussion in the legislature of Pennsylvania. The bill restricts the loans of the banks to *twice* the amount of their capitals. A bank so constituted could not lend to the mere amount of its whole capital, including stock, without more than doubling the average proportion of all the banks in the union.

further substitution of stock in the place of private discounts, the security would, in both cases, be the same. It seems very probable, that a bank may extend its loans to more than twice its capital, where that capital has been paid up in gold and silver; as, in no less than ten of the states, the loans had exceeded that proportion in January, 1837, and, in some of them, greatly exceeded it; though, in nearly all of them, a part of that capital was fictitious; but it is clear, that the larger we assume the proportion to be, the greater will be the difference between the two plans, as to profit, without any diminution of the security.

The scheme, then, seems to have no recommendation sufficient to compensate the objections of conferring privileges on private associations for banking, which are extended to no other partnerships, and of encouraging both rashness and fraud, in exonerating the individual partners from the payment of the partnership debts; and though the plan may give the public some additional security against insolvency and over-issues, in those states in which banking has been pushed to an extreme, yet the same advantage may be as effectually and much more cheaply obtained in another way.*

III. BANKING IN THE SOUTHERN STATES.

Banking has been pursued with more moderation

* Having thus stated my objections to this plan, it is but justice to add, that those who may wish to see what may be said in favor of it, may consult Mr. Lord's Essays on Banks, p. 84, and Mr. Raguet's letter to Mr. Bronson, in the Financial Register, Vol. II., p. 7.

in these states than in any other, except the northwestern. In January, 1838, their capital was 32,000,000, their issues and deposits about 30,000,000, their specie 6,000,000, and their loans 55,000,000. Constituting nearly a fourth of the union, their banking capital is but about one tenth of the whole.

The opposition that was made to the establishment of the first bank of the United States was particularly strong in this part of the union; and, it having extended to the banking system itself, it was not until 1805 that banks were established in any of them, except South Carolina. Georgia, which was the last of the four to establish a bank, has now a greater amount of bank capital than any other.

If enterprise and productive industry have been thus less encouraged by banks in these states, they have also been less subject to the embarrassments and sudden reverses experienced in other states; and if their bank capital is comparatively small, it is also more efficient. The proportion of loans to capital was greater in Virginia, in January, 1837, than in any other state; and the proportion of specie to capital, was greater in North Carolina than in any state except Indiana.

The exhibition of the state of the banks in this division shows that banking has been carried farther in Florida than in any of the four states composing it; as, in that territory, the loans of the banks but little exceed their capitals: that Georgia is next to Florida, in this respect: that North Car-

olina has been the most moderate, and Virginia next. Though the bank capital of the latter is about two thirds that of Maryland, its loans are 20 per cent. more, and its note circulation almost three times as much. Though agriculture, which constitutes the principal species of productive industry in Virginia and North Carolina, cannot be as much benefited by banks as commerce, mining, or manufactures, yet those states have sufficient field for the profitable employment of capital in the last-mentioned modes, to make the farther extension of banks advantageous to them, provided it were made gradually, moderately, and judiciously. Banks may then render some of the same benefits to those states which they have rendered to Scotland.

IV. SOUTHWESTERN STATES.

The banking mania has prevailed in this division beyond any other in the union, not excepting New England; in consequence of which, with the most profitable agriculture in the United States, the bank circulation of these states has been the most depreciated, and they are still suffering the evils of a disordered currency.

In January, 1838, the capital of their banks was, nominally, 75,000,000, their issues and deposits 44,000,000, their loans 122,000,000, and their specie about 5,000,000. It must, however, be recollected, that New Orleans is the great *entrepot* of all the western states; and that Louisiana owns almost as much bank capital nominally, and

probably much more really, than the other four states of this division. It is, indeed, very irregularly distributed; as that of Mississippi is 160 per cent. more than that of Tennessee, and 75 per cent. greater than that of Alabama. It is four times as great to each inhabitant as is the capital of the southern states. The high price of cotton, (the principal staple of these states,) which began to rise in 1833, having made the culture of it a most gainful pursuit, many were tempted to borrow money for the purpose of buying lands, and of purchasing slaves, as well as for the ordinary interior traffic; and, as the requisite amount could be procured in no other way, they established banks, by funds procured from other states, or from abroad, and sometimes on the guaranty of the states themselves. Hence, the amount of debt in a part of this division is far greater than in any other part of the union. In Mississippi, with a population probably not exceeding 300,000 at this time, the amount of bank loans is 24,000,000, or more than $150 to each free inhabitant! A few years of industry and economy would extricate them from debt; but the requisite industry is far more probable than the frugality. A complete extrication from debt is, indeed, of much less importance than the restoration of their credit; and this may be effected in a much shorter time.

V. THE NORTHWESTERN STATES.

Banking has been pursued with more moderation in the states of this division than in any other; they

being, by their position, shut out from the tempting enterprises of foreign commerce, and their agriculture not presenting the same means of sudden wealth as has occasionally been afforded to the cotton and the sugar planter; yet, as in the race of the hare and the tortoise, they have made up in steadiness what they wanted in fleetness, and are now far ahead of their southern competitors.

The capital of this division, in January, 1838, was 29,000,000, its issues and deposits 26,000,000, its loans 40,000,000, and its specie above 7,000,000. The proportion of bank capital to an inhabitant is supposed not now to exceed $8. The banking mania prevailed in Kentucky soon after the termination of the last war, and, in 1820, the state had forty-two banks, with a capital of near 9,000,000 of dollars; but the mischief and confusion that necessarily ensued occasioned, for a time, the total discontinuance of these institutions. They were, however, again resorted to; and now they are used with as much moderation as in any other state.

Missouri, too, after a short-lived and much less adventurous experiment, has laid them aside. Michigan, on the other hand, has the greatest amount of bank capital, in proportion to its population. Indiana, in 1837, had the largest amount of circulation and of specie, in proportion to its capital, of any state in the union.

CHAPTER XIX.

OF THE QUANTITY OF THE PRECIOUS METALS IN EUROPE AND AMERICA. — THE INFLUENCE OF THEIR LATE DECREASE ON PRICES.

As the precious metals constitute the universal measure of value for the world, it is important to know the changes which their value is now undergoing, and is likely hereafter to experience. Such alterations must affect all pecuniary contracts that require long periods of time for their fulfilment; and they may materially affect nations having large public debts.

Though the value of these metals, like that of every thing else that is the product of human industry, originally depended on the labor expended in drawing them from the mines, yet now, when the quantity which has been accumulated in the world during more than three centuries is so great, compared with what is annually produced, their market value in the world seems to be, in a great measure, independent of the cost of production, and to be regulated by the quantity, — rising or falling, as that diminishes or increases; so that, if these metals could be produced with one half the labor previously expended, or were to require double the former labor, it would be several years

before either of these changes would have a sensible effect on the price. To ascertain, then, whether their value is rising or falling, we have only to inquire whether the quantity is increasing or diminishing; that is, whether the annual supply from the mines is greater or less than the annual consumption.

Unfortunately, there are no authentic data for determining either of these facts with any thing like accuracy. Even the amount produced by the mines, which is the fact most capable of being correctly estimated, was, before the valuable researches of M. Humboldt, a matter of great uncertainty. Ever since he wrote, the conflicting estimates of other writers have been disregarded; and his computation of the quantity of gold and silver which the mines of America have yielded, from 1492 to 1803, has been assumed as the nearest approximation to the truth.

Mr. Gallatin, proceeding on this basis, computes the whole amount of the precious metals in Europe and America, in 1830, as follows:

Extracted from the mines of America to 1803, . .	$5,600,000,000
Product from 1804 to 1830, ...	750,000,000
" from the mines of Liberia, ...	100,000,000
Gold dust from Africa, and the product of the mines of Europe, ...	450,000,000
	6,900,000,000
To this he adds the amount supposed to be in Europe before the discovery of America, . . .	300,000,000
In all, ...	$7,200,000,000

Of this amount, about one fourth was gold, and

three fourths silver. Of both metals, a considerable part has been consumed in gilding, plating, in gold and silver tissues, &c., — so that they can never assume a new metallic form; a part has disappeared by the continual abrasion of coins, utensils, and ornaments; and a part is lost at sea, or by being buried in the earth. A yet larger portion, almost exclusively of silver, has been used to carry on the trade with Asia. Without attempting to estimate the amount of each of these deductions, (for some of which there are scarcely any data,) he supposes the amount of gold and silver now in Europe and America, in every form, to be, according to such estimates as have been made from the imperfect data possessed, from 4,000 to $5,000,000,000. Taking the medium of 4,500,000,000 as the probable amount, he supposes from one third to two fifths to be used as coin, and the residue in plate, jewelry, and the like. Assuming, in like manner, the medium between these extremes as the most probable approximation to the truth, we will suppose the amount of gold and silver now used as money in Europe and America to be $1,650,000,000.

Soon after Mr. Gallatin's essay appeared, Mr. Jacob published his "Inquiry into the Production and Consumption of the precious Metals," according to which, the whole amount of those metals remaining in Europe and America, in 1830, was about £713,000,000 sterling, — equal to $3,422,000,000; of which £313,000,000 — equal

to $1,502,000,000—is in coin, and the residue (£400,000,000,—equal to $1,920,000,000) is in the form of utensils and ornaments.

The difference between these estimates, it will be perceived, is principally in the amount of the precious metals which are in other forms than those of coin. But, although Mr. Jacob has made a very elaborate and methodical investigation of the subject, and has made deductions from the computed product of each century, for what is supposed to have been transported to Asia, lost by abrasion, or converted either into coin or utensils and ornaments, yet, as the last item is purely conjectural, we cannot safely trust to his conclusions. On farther inquiry, too, his estimate seems to afford intrinsic evidence of error. The following table is an abstract of the result of his inquiries into the production and consumption of the precious metals in Europe and America, since the discovery of the latter. All his estimates are made in pounds sterling, which are here converted into dollars, at 4*s.* 2*d.* sterling the dollar.

Epochs.	Gold and Silver drawn from the Mines.	Converted into Coin.	Wear of Coin.	Transported to Asia.	Consumed in Manufactures, &c.	Coin in circulation at the end of each period.
	Millions	Millions	Millions	Millions	Millions	Millions
Before 1492,	163.2					163.2
From 1492 to 1599,	744	460.8	81.6	66.2	134.4	624
" 1599 " 1699,	1620	1171.2	369.6	159.6	298.2	1425.6
" 1699 " 1809,	4224	844.8	446.4	1689.6	1689.6	1824
" 1809 " 1829,	497.9		86.8	192	538.8	1502.2
	7249.1	2476.8	984.4	2107.4	2652.0	

Now, the above state of facts, in the first place, supposes the whole amount of the precious metals consumed in gilding, plating, and tissues, and that lost by accidents and by the abrasion of utensils, to be less than that lost by the wear of coin; as may be seen by the following statement:

The whole amount drawn from the mines since the discovery of America, ...		$7,061,000,000
The quantity in Europe before that event, ...		163,000,000
		7,224,000,000
If from this we deduct,—		
The amount now computed to be in Europe and America, ...	3,422,000,000	
Transported to Asia, ...	2,107,400,000	
Consumed in the wear of coin, . . .	984,400,000	
		6,513,300,000
It leaves, for what has been otherwise lost or consumed, ...		$700,200,000

This indicates a considerable error in some part of the estimate; as there are few countries in Europe, in which the consumption of gold in gilding alone does not exceed the loss occasioned by the wear of coins. To this must be added what is consumed in plating, in the abrasion of all manufactured articles of gold or silver, and all that is lost at sea, or otherwise.

Mr. Jacob's estimate, moreover, supposes a much smaller excess of silver over gold than is known to exist. Thus, assuming the ordinary supposition to be correct, — that the proportion of silver does not

exceed three fourths, in value, of the whole quantity, —

The whole amount of silver, equal to three fourths of $7,224,000,000, is	$5,418,000,000
From this is to be deducted	
Three fourths of what has been lost or consumed, ($1,694,000,000,) equal to	1,270,000,000
Amount transported to Asia,*	2,108,000,000
	3,378,000,000
Which would leave, for the whole amount of silver now existing in Europe and America, in every form, ...	$2,040,000,000

This amount of silver, which supposes that of gold to be $1,382,000,000, and consequently in the proportion to that of silver of 7 to 10 nearly, is utterly inconsistent with the following facts: — 1. The amount of silver plate, (as is remarked by Adam Smith,) in all countries, very greatly exceeds the gold; 2. In every part of Europe, except England, and perhaps Portugal, the principal currency is silver; and, 3. Although that metal has continued to be produced to about three times the amount of gold, in value, and the drain to the East has very greatly diminished during the last twenty years, the price of gold, as compared with silver, has appeared somewhat to rise, and has certainly not fallen.

It may be farther remarked, that the whole amount of silver which has been drawn from the mines, though here assumed to be three fourths of the aggregate amount of both metals, (as has been

* This is assumed to be wholly in silver.

near the proportion for the last thirty or forty years,) has been, throughout the whole period from 1792 to 1830, probably not much more than two thirds.* If the proportion of silver be thus reduced, it will make Mr. Jacob's error appear yet greater. The inference is, therefore, irresistible, that he has greatly overrated either the amount of silver sent to the East, as M. Humboldt appears also to have done, or the rate of loss from the wear of coins, and most probably that he has overrated both. On this account, Mr. Gallatin's estimate will be preferred, and the whole amount of the precious metals in Europe and America, in 1830, will be assumed to have been $4,500,000,000.

Let us now inquire what are the changes in value it is now undergoing. Ever since the war which broke out, in 1810, between Spain and her American colonies, the product of their mines, that was then supposed to furnish about nine tenths of the precious metals received by Europe and America, has greatly diminished. The business of mining being pursued in those countries as a regular occupation, and yielding but the average profits of capital and labor, was necessarily interrupted by war; and after they had effected their liberation, the wars of the several states with one another, and the intestine commotions in each other, have still prevented them from resuming their mining labors extensively or successfully.

* See Appendix, p. 8, in which the gold drawn from the American mines is stated to be to the silver as 1 to 235, and the proportion of silver afforded by the European mines has been about in the same proportion.

Though nearly thirty years have elapsed since their troubles began, the civil condition of most of them seems to be as unsettled as ever.

While all agree that the annual product of the mines has greatly decreased, there is much difference of opinion as to the extent of the diminution, and still more as to its influence on prices generally, or, in other words, on the market value of the precious metals. Thus, while Mr. Jacob's inquiries * have led him to the conclusion, that the quantity of these metals, in the form of currency, was one sixth less in 1829 than in 1809, and, consequently, that their value had risen one sixth, or 16⅔ per cent. in twenty years, Mr. M'Culloch † thinks they could not have risen as much as 5 per cent.

If we assume that the demand for these metals, during this term, was nearly stationary, then a comparison between their total production and their total consumption, by showing us the diminution in their supply, would show us the increase of their value. Unfortunately, there are no published statistical details that afford materials for extending this comparison later than 1830, and none at all that are at once full and authentic. According to Mr. Jacob, who seems to have availed himself of

* Jacob's Inquiry, Chap. XXVI.

† Commercial Dict. p. 946. In the same work, however, Mr. M'Culloch, who here estimates the utmost limit of the effect of the lessened product of the mines on prices, at from 3 to 5 per cent., had previously stated the same limit at per cent., p. 76. Such discrepancies, though scarcely to be avoided in so large a work, must lessen our confidence in the accuracy of the author, as to the particular subjects in which they occur.

all accessible sources of information when he wrote, the product of the mines, for the twenty years succeeding 1809, was as follows:

From the American mines, . .	£80,736,768
" European " . . .	3,000,000
" North Asiatic (Russian,)	19,263,232
	* £103,000,000

Mr. M'Culloch makes a much lower estimate of the product of the mines during the same period. Availing himself of the official reports made by British consuls of the product of the greater part of the American mines, he reckons the product of the whole, during the twenty years, at £60,165,891, and to this adds, for supposed deficiencies in the consular returns, £500,000 per annum; making, together, ... £70,165,891
The product of the Russian mines, . 5,206,724
£75,372,615

Though he is probably nearer the truth than Mr. Jacob, yet, as his estimate is lower than any other, and is too low to be consistent with his own views, let us take the medium between them, £89,186,357, equal to $428,000,000 nearly, as the product of the precious metals for the twenty years preceding 1830.

The consumption in the same time is thus estimated by Mr. Jacob:

* Mr. Jacob, indeed, states the gross amount at £100,000,000; but he omits the supply from the mines of Europe, which he had previously estimated at £3,000,000.

Converted into utensils and ornaments, ...	£112,252,220
Transported to Asia, ...	40,000,000
Lost by the wear of coin, ...	18,895,220
	£171,147,440

Mr. M'Culloch has made no formal estimate of the consumption during this time; but he rates the amount consumed in plate, gilding, and other purposes than coin, after allowing for the old plate remelted, at £3,650,000 annually; the amount of coin lost by wear, by shipwreck, and other accidents, at about 1 per cent.; and, for the latter years of the time, he supposes that Europe has received more gold and silver from the East than it has transported thither. If, then, making these views the basis of another estimate, we suppose that the money sent to Asia, during the twenty years, did not exceed the money received from thence,* and that the amount of coin in Europe and America was, in 1809, about £350,000,000, then the result would be as follows:

Converted into utensils and ornaments, £3,650,000 a year, ...	£73,000,000
Lost on coins, 1 per cent. on £350,000,000 a year, . .	70,000,000
	£143,000,000

The medium between these two estimates is £157,073,722, equal to $740,000,000, from which, if $428,000,000 be deducted, we shall have $326,000,000, as the excess of consumption over production for the twenty years.

* Mr. M'Culloch virtually assumes this, in considering that all the gold and silver annually drawn from the mines, and not expended in manufactures and the arts, is appropriated to coin. See Com. Dict., p. 945.

But, as Mr. Jacob seems to have greatly overrated the amount of gold and silver consumed in manufactures, whether we compare his estimate with those made by Humboldt, Storch, and others, or scrutinize its details; and as that made on the authority of Mr. McCulloch certainly underrates the amount transported to Asia, as well as the annual loss on coins; — another estimate is now submitted, in which these errors are supposed to be corrected. The amount exported to India and China, from 1810 to 1829, beyond the amount imported, according to a detailed account published by Mr. Jacob* was 289,287,117 rupees; equal to £28,928,711 sterling, in nineteen years, or about $7,308,100 annually. The annual loss on coins from wear, at sea, and otherwise, seems to be highly rated at one half of one per cent. Nor should any allowance be made for what is occasionally buried in the earth; for, after the practice has been continued for centuries, the amount annually found may be presumed equal to the amount annually abstracted in this way. The quantity consumed in gilding, plating, jewelry, &c., in Europe, according to Humboldt, was, in the beginning of this century, 87,182,800 francs annually; nor is it likely to have diminished, as the increased wealth of the greater part of Europe has more than counterbalanced the rise in the value of gold and silver. To this amount, then, equal to about 16½ millions of dollars, will be added 1½ million for America,

* Jacob's Inquiry, Appendix, No. 14.

and the whole consumption may then be set down at 18,000,000 a year. The result will be as follows:

Consumed in plate, jewelry, &c. annually, ...	$18,000,000
In the wear of coins, by losses at sea, &c. ½ per cent. on $1,650,000,000, ...	8,250,000
Exported to Asia, ...	7,300,000
	$33,550,000

This would give $671,000,000, for the whole consumption of twenty years. If, from this we deduct 428,000,000, the supposed amount produced, it will give us 243,000,000 as the excess of consumption over production, correspondent to the decrease of the coin in that time. This is an extent of diminution which is quite sufficient to produce a sensible effect on the value of the metals, and, consequently, on the prices of commodities. Nor can we deduct much from this estimate, without either rating the production of the mines much higher than any statistical writer, except Mr. Jacob, or rating the annual consumption lower than the lowest. Compared with the quantity of coin supposed to be in circulation in 1809, (1650 + 243,000,000) it shows a decrease in quantity of near 13 per cent., ($12\frac{4}{5}$,) and, consequently, as $87.2 in 1829 was equivalent to $100 in 1809, the increase of value in the precious metals has been about $14\frac{2}{3}$ per cent.

The increased value of the precious metals, thus inferred from the diminution of the coin, receives strong confirmation, if we compare the produce of the mines during the twenty years, with the ordi-

nary average production before that period. According to Humboldt, the annual produce of the mines of America, Europe, and Asiatic Russia, for twenty or thirty years before 1809, was about $48,000,000. In the twenty years succeeding, we have supposed it to have fallen to 428,000,000, equal to 21⅖ millions a year. This difference equal to 26⅗ millions, annually, would show a deficiency, in twenty years, of $532,000,000; which deficiency, when compared with the whole amount of precious metals existing in every form, in Europe and America, in 1809, (4,500 + 532,000,000) amounts to 10.57 per cent. This comparison, which shows $89.43 in 1829, to be equivalent to $100 in 1809, indicates an increase of value in the precious metals, supposing the demand for them unchanged, of 11.84 per cent.

But the value of these metals is affected by an alteration in the demand as well as in the supply; and the increase in their value from a lessened supply may be further augmented by an increased demand. If, then, we suppose such an increased demand, it will satisfactorily explain the difference between the proportional diminution of coin and of gold and silver in every form.

The demand for the precious metals naturally increases with an increase of numbers and wealth; and, generally speaking, the demand for an increase of money augments with the increased demand for plate, jewelry, and other uses of gold and silver. But there is this diversity between the demands for these two purposes: that which requires the

precious metals in the form of ornaments and utensils, can be met only by a further supply of the metals; but that which requires them for money may be met by an increase in their current value. When, then, by an increase of population, commerce, and wealth, in a country, there is a greater demand for watches, personal ornaments, household plate, &c., the consumption of the metals will increase, and if the supply from the mines is not sufficient for the augmented demand, it will be made from the coins, by which diminution in quantity, their value is proportionally raised. Nay, more, they may rise yet higher in value, to meet the increased demand which the augmented commerce and wealth of the community have made for currency, as well as for plate and jewelry.

It is true, that, as the value of these metals, in the form of coin, increases, so must it also increase in all other forms, and this rise in value, tends to check the demand; but if, notwithstanding such check, the actual demand for plate and jewelry increases, beyond the supply from the mines, after repairing the annual waste, it must be met by the coin in circulation, which is then able to perform its great function of being the universal equivalent, by an increase of its exchangeable value. In the different operations, then, of these two kinds of demand for the precious metals, we have a reason why the relative change in the quantity of gold and silver, in the form of coin, may be very different from the relative change in the aggregate quantity of these metals under every form.

Of such an increased demand for the precious metals, during the twenty years under consideration, there is abundant evidence. Besides that it was to have been inferred from the increase of population, which nearly every part of Europe and the greater part of America experienced in that time, and from the rapid advancement of practical science, art, and industry, during the last fifteen years of the term, it is testified by all statistical writers. The fact is admitted by Mr. McCulloch, and is proved by many of the details of Mr. Jacob, as to the richer nations of Europe. The consumption of gold and silver, therefore, has been greater, in plate and jewelry, since 1809, than it was before, notwithstanding the increasing value of these metals; and it is this additional consumption which, by drawing its materials partly from the coin, has diminished that to 12.8 per cent., while the whole quantity of the precious metals, in every form, had diminished only 10.57 per cent., and which has contributed, with the reduced supply, to raise the value of both 14⅔ per cent.

Considerable as this increase is, it would have been yet greater, but for the increase of banks of circulation in most parts of Europe, and the consequent substitution of paper for metallic currency. It is probable, that it has been sufficient to meet the additional demand for money, which the augmentation of numbers and wealth occasioned. If this has been the case, the real rise in the value of gold and silver, compared with other commodities, has been 14⅔ per cent., as the diminution in the

quantity of coin indicates. If the substitution has been greater, the rise of those metals has been proportionally less; and if less, proportionally more than 14⅜ per cent.

There is another process of investigation, which would show the increased value of gold and silver, whether caused by the greater demand or the diminished supply; and that is, a comparison of the average prices of commodities in different countries, at the beginning and the end of the period in question. But this is an undertaking of great practical difficulty. It would require not only much labor and research, but also extreme nicety of judgment, to make a just appreciation of the various other causes which influence price, besides alteration in the value of the precious metals. Many of these have had a yet greater effect than the diminished production of those metals, in lowering the nominal prices of particular commodities. Of this character are labor-saving machines, improved modes of culture, more extensive cultivation, improved modes of transportation, removal of commercial restrictions, with many others. But, after making a liberal allowance for their united influence, it is believed that such a comparison of prices, as is within the reach of almost every one, will exhibit a rise in the value of the precious metals not much short of that which has been here supposed; nor can any other plausible solution be given for the recent reflux of those metals from the east, after they had been flowing, for centuries, in the opposite direction.

More accurate statistical information, than is as yet possessed, is necessary to show how long after 1829 the causes of the rise of gold and silver continued to operate, and whether they are still in force. It seems, however, probable, that that rise has reached its highest point of elevation, and that the value of those metals will soon experience a gradual but moderate declension. The wars and intestine commotions, which now interrupt the mining operations of Mexico and South America, will, in time, cease, when those operations will be gradually resumed, and be carried on as extensively, and, perhaps, to more advantage than ever. Whenever capital and labor shall settle down to their former rate of profits in the United States, mining will there also extend, and may make a sensible addition to the general stock of gold. The same change may take place in Brazil; and, in the meanwhile, the mines in the Asiatic part of Russia are steadily increasing in their products both of gold and silver. Should all these expectations fail, when we recollect the tendency which the rise in their value has to diminish their consumption, we may confidently trust that they could not be much farther diminished in quantity, and, consequently, raised in value, without bringing down the annual consumption to the level of the annual supply.

APPENDIX.

I.

TABLE *of the Coins of the United States, their Standard Weight, fine Metal, and Alloy of each, by the Act of Congress of* 1792, *and by the Act of* 1837, *together with the value of each, in Dollars and Cents.*

Coins.	By Act of 1792.			By Act of 1837.			Value.
	Standard Weight.	Fine Metal.	Alloy.	Standard Weight.	Fine Metal.	Alloy.	
Gold.	*Grains.*	*Grains.*	*Grains.*	*Grains.*	*Grains.*	*Grains.*	*Dollars.*
Eagle,	270	247½	22½	258	*232⅕	25⅘	10
Half eagle,	135	123¾	11¼	129	116 1/10	12 9/10	5
Quarter eag.	67½	61⅞	5⅝	64½	58 1/20	6 9/20	2.50
Silver.							
Dollar,	416	371¼	44¾	412½	371¼	41¼	1
Half dollar,	208	185⅝	22⅜	206¼	185⅛	20⅝	.50
Quarter dol.	104	92 13/16	11 3/16	103⅛	92 13/16	10 5/16	.25
Dime,	52	37⅜	14⅝	41¼	37⅛	4⅛	.10
Half dime,	26	18 3/16	7 13/16	20⅝	18 9/16	2 1/16	.5
Copper.							
Cent,	244†			168			.1
Half cent,	122			84			.05

* By the act of 1834, the eagle is required to contain 232 grains of fine gold in 258 grains of standard gold; but the act of 1837, in requiring 9/10 of all the coins to be of fine metal, and in continuing the former weight of the eagle, has virtually added ⅕ of a grain of fine metal to its weight.

† The cent was after 1795, reduced to 174 grains, and it so continued until the act of 1837.

The following foreign coins, when of the required fineness, are a legal tender in the United States, at the following rates:

Gold Coins.

	Carats.	
1. Those of Great Britain, Portugal, and Brazil, of 22 carats fineness, at	94.8	per dwt.
2. Those of France, $\frac{9}{10}$ fine, ...	93.1	"
3. Those of Spain, Mexico, and Columbia, of the fineness of 20 carats 3 $\frac{7}{16}$ grains, ...	89.9	"

Silver Coins.

1. Dollars of Mexico, Peru, Chili, and Central America, and those restamped in Brazil, weighing 415 grains, and of the fineness of 10 ounces 15 pennyweights of pure silver in a troy pound,	at 100 cents each.
2. Five franc pieces of France, of the fineness of 10 ounces 16 pennyweights in the troy pound, and weighing 384 grains,	at 93 cents each.

II.

TABLES *of the principal Gold and Silver Coins of the Countries and States with which the United States have commercial intercourse; their Weight; the quantity of pure Metal they contain; their Value in the Money of account of those Countries, and their Value in Dollars and Cents; according to Assays made at London and Paris, and published in Kelly's Cambist.*

I. GOLD COINS.

Countries.	Coins.	Weight. dwt.	gr.	Fine Gold.	Value in Money of account.	Value in Dolls.
Austria	Sovereign.	3	14	78.3	6¾ florins.	3.33
	Ducat.	2	6	53.1	4½ florins.	2.29
Belgium	William.	4	7¾	93.1	10 florins.	3.1
Bengal	Gold mohur.	7	23	189.4	16 sicca rupees.	8.16
Bremen	Ducats.	2	5¼	52.3	2¾ rix dollars.	2.25
Denmark	Ducats, specie.	2	5¼	52.3	14 marks 12 skil.	2.25
England	Guinea.	5	9½	118.35	1 pound 1 s.	5.09
	Sovereign.	5	3½	113.001	1 pound = 20 s.	4.86⅔
France	Louis.	4	3½	89.35	20 francs.	3.85
Genoa	Genovina.	16	4	357.35	96 lire.	15.40
Hamburg	Ducat.	2	5¼	52.45	6 marks banco.	2.26
Holland	Ducat.	2	5¼	53.1	5 florins 5 stivers.	2.29
	Ryder.	6	9	140.1	14 florins.	6.04
Madras	Star pagoda.	2	4¾	41.4	42 fanams.	1.79
Naples	Oncetta.	2	10½	58.05	3 ducats.	2.50
Portugal	Half Joannes.	4	15	101.25	6,400 rees.	4.36
Prussia	Frederick.	4	7	92.1	5 rix dollars.	3.97
Russia	Imperial.	7	17½	181.45	10 rubles.	7.82
Sardinia	Carlino.	10	7½	219.4	25 lire.	9.44
Sicily	Ounce, 1751.	2	20½	58.1	30 tari.	2.50
Spain	Doubloon.	17	8½	372.	320 reals.	16.47
	Pistole, 1801.	4	8¼	90.05	80 d.	3.88
Sweden	Ducat.	2	5	51.45	94 skil's or 1 rix doll. 48 skill's.	2.22
Tuscany	Ruspone.	6	17½	160.4	40 lire.	6.91
	Sequin.	2	5¼	53.3	13½ lire.	2.29
Turkey	Sequin fonducli.	2	5	42.25	7 piastres.	1.82
Venice	Sequin.	2	6	53.3	22 lire.	2.29
	Ducat.	1	9½	33.15	14 lire.	1.43

II. SILVER COINS.

Countries.	Coins.	Weight. dwt.	Weight. gr.	Fine Silver. gr.	Value in Money of account.	Value in Dolls.
Austria	Rix dollar convention.	18	1	353.35	2 florins.	.95
Belgium	Ducatoon.	21	10	445.25	3 florins.	1.19
	Florin, 1816.	6	22	148.2	20 sous = 100 cts.	.40
Bengal	Sicca rupee.	7	11½	175.4	16 annas.	.47
Brazil	Pataca, 1801.	12	4½	262.1	640 rees.	.70½
Bremen	Rix dollar specie.	18	18	397.25	1½ rix dollar current = 96 gr'ts	1.06
Denmark	Rix dollar.	18	14	388.2	7 marks 6 skill's.	1.04½
	Rixsbank dollar.	9	7	19	8 marks = 96 sk.	.50½
England	Crown, new.	18	4½	403.3	5 sh. or 60 pence.	1.08½
France	Five franc p.	16	1	344.45	100 sous.	.92½
Genoa	Scudo, 1796.	21	9	457.2	7 lire 12 soldi.	1.23
Hamburg	Rix dollar.	18	18	397.25	3 marks.	1.07
Holland	Guilder or florin.	6	18	146.4	20 st. 2 f. 10 cts.	.39½
Madras	Rupee, 1818.	7	12	165.	16 annas.	.44½
Naples	Ducat, 1818.	14	18	295.05	10 carlini or 100 grani.	.79½
Portugal	Crusado, 1809.	9	3	198.1	480 rees.	.53½
Prussia	Rix dollar convention.	18	1	359.	24 good groschen	.96½
Russia	Ruble, 1802.	13	1½	273.	100 copecks.	.73½
Sardinia	Scudo.	15	2½	324.35	2½ lire or 10 reali.	.87½
Sicily	Scudo.	17	14	348.1	12 tari.	.93¾
Spain	Dollar.	17	8	370.45	8 reals mex. pl. 20 reals vallon.	.99¼
Sweden	Rix dollar.	18	17	388.25	48 skillings.	1.04½
Turkey	Piastre, 1818.	6	6½	67.35	40 paras.	.18
Tuscany	Francesco Leopoldoni.	17	13½	386.2	10 paoli or 6¾ lire.	1.04
Venice	Ducat.	14	6	280.4	12 lire 8 soldi.	.75½

III.

ABSTRACT *of an Experiment made at the London Mint, in* 1826, *on certain Gold and Silver Coins of Great Britain, for the purpose of ascertaining the amount of Loss by Wear.*

Denominations and Date of Coins.	No. of pieces tried.	Computed weight after reduction from the pix report.				Dirt on the Coin.	Weight after Washing.				Loss of Weight.		Rate of Loss per £100.			Charge of Coinage per £100.	
		lbs.	oz.	dwt.	gr.	gr.	lbs.	oz.	dwt.	gr.	gr.		£	s.	d.	£	s. d.
Sovereigns. 1817	350	7	5	16	14½	7	7	5	12	13	97.5		4	6.232			
1821	500	10	8	7	12	15	10	8	2	11	121		3	11.112			
1825	500	10	8	7	8¼	8	10	8	5	16	40.5		1	3.769		14	3.749
Half do. 1817	300	3	2	10	6	6	3	2	8	2	52		5	7.476			
1820	230	2	5	10	14	8	2	5	9		38		5	4.328			
1825	300	3	2	11	10	7	3	2	9	9	26		2	9.738		16	10.247
Half crowns. 1816	300	11	4	5	16	22	11	2	18	14	650		19	10.332			
1817	300	11	4	5	18	29	11	3	4	21	501		15	3.7			
1821	300	11	4	2	23	29	11	4	1		46		1	4.865		44	9.87
1824																	
1825																	
Shillings. 1816	300	4	6	10	6	14	4	5	5	4	602		2	5	11.832		
1817	300	4	6	10	7	22	4	5	12	18	421		1	12	1.915		
1820																56	9.818
1821																	
1824																	
1825	300	4	6	9	23	13	4	6	7	7	64			4	10.656		
Sixpences. 1816	300	2	3	5	3	10	2	2	4	14	493		3	15	3.832		
1817																	
1820	300	2	3	5	3	9	2	2	12	3	319		2	7	8		
1821																	
1824																	
1825	300	2	3	4	23	12	2	3	3		47		7	2.165		65	7.878

IV.

The *remedy of the Mint*, or allowance for deviations from the standard, is, by the act of 1834, for gold coins, 1 part in 384 in fineness, and 1 part in 500 in weight; but, by the act of 1837, the remedy *in the weight* of all the domestic coins is regulated according to the following

TABLE, *showing the Remedy in each Coin, and the proportion of the Remedy to the Weight, both in single Coins and in a large number.*

Single Coins.		Remedy.	Weight.	Proportion of remedy to weight.
		Grains.	*Grains.*	
Gold.	Eagle	$\frac{1}{4}$	258	1 to 1032
	Half eagle		129	1 " 516
	Quarter eagle		$64\frac{1}{2}$	1 " 258
Silver.	Dollar	$1\frac{1}{2}$	$412\frac{1}{2}$	1 " 275
	Half dollar		$206\frac{1}{4}$	1 " $187\frac{1}{2}$
	Quarter dollar	1	$103\frac{1}{8}$	1 " $103\frac{1}{8}$
	Dime	$\frac{1}{2}$	$41\frac{1}{4}$	1 " $82\frac{1}{2}$
	Half dime		$20\frac{5}{8}$	1 " $41\frac{1}{4}$
Copper.	Cent	1 in a dwt.		1 " 24
	Half cent			
In a large number of Coins.				
Gold.	1000 eagles	48	258,000	1 " 5375
	1000 half do.	36	129,000	1 " $3583\frac{1}{3}$
	1000 quarter do.	24	64,500	1 " $2687\frac{1}{2}$
Silver.	1000 dollars	96	412,500	1 " $4296\frac{7}{8}$
	1000 half do.	72	206,250	1 " $2864\frac{1}{12}$
	1000 quarter do.	48	103,125	1 " $2148\frac{7}{16}$
	1000 dimes	24	41,250	1 " $1074\frac{7}{32}$
	1000 half do.		20,625	1 " $537\frac{7}{64}$

V.

ABSTRACT *of the Act of Congress, concerning the Mint Establishment, passed Jan.* 18, 1837.

SECT. 1. The officers of the mint shall be a director, a treasurer, an assayer, a melter and refiner, a chief coiner, and an engraver.

2. The duties of each of the officers are specifically detailed.

3. Assistants and clerks to be appointed by the director, with the approbation of the president of the United States.

4. In the temporary absence of any officer, the director may appoint some other officer in his place.

5, 6. Every officer is required to take an oath of office, and the treasurer, assayer, melter and refiner, and chief coiner, to give bond satisfactory to the secretary of the treasury, for the faithful discharge of their duty, in the sums specified.

7. The salaries shall be to the director, $3500; to the other principal officers, $2000 each; and those of assistants and clerks, to be determined by the director, with the approbation of the president, not exceeding $1500 to an assistant, and $1200 to a clerk. The wages of servants and workmen to be determined by the director.

8. The standard of both gold and silver coins to be 900 parts of pure metal to 100 parts of alloy. The alloy of silver coins to be of copper, and of gold coins, copper and silver; the latter not to exceed one half.

9, 10. Determine the weight of the several coins. (See Appendix, No. I.)

11. The silver coins heretofore issued, and the gold coins since 1834, are made a legal tender.

12. Determines the weight of the copper coins.

13. Declares the impression of the several coins.

14. The gold and silver brought to the mint shall be coined for the benefit of the depositor; but it may be refused if of less value than $100, or the bullion is so base as to be unsuited to minting operations. When gold and silver are combined, if either metal is in such small proportion that it cannot be advantageously separated, no allowance shall be made for it.

15. The treasurer shall weigh the bullion brought to the mint for coinage, in the presence of the depositor, when practicable, and a receipt be given for it. But when melting is necessary, for ascertaining its value, the weight, after melting, shall be its true weight.

16. A sufficient portion of each parcel of bullion shall be delivered to the assayer, to be afterwards returned by him to the treasurer.

17. The assayer shall report the result of his assay to the treasurer, so as to enable the latter to estimate the charges of coining.

18. The only charges, to which the depositor shall be liable, shall be, —

For refining, when the bullion is below the standard;

For toughening, when necessary;

For copper and silver used as alloy;

For separating gold and silver, when combined.

The rates of these charges to be fixed by the director (with the concurrence of the secretary of the treasury) according to what he believes to be the actual expense. The money to aid in defraying the expenses of the mint.

19. The treasurer shall, from the assayer's report of the weight of the bullion, estimate the value of each deposit, and the charges it may be subject to, of which he shall give a memorandum to the depositor, as well as a certifi-

cate of the net amount, to be paid in coins of the same metal as that deposited.

20. Transfers of bullion shall be from time to time made by the treasurer to the melter and refiner, to be made into ingots, of which a careful record is to be kept.

21. These ingots, when assayed, and found to be of the requisite fineness, shall be transferred by the melter and refiner to the treasury, and duly recorded.

22. No ingots of gold shall be used for coining if the fineness differs more than $\frac{2}{1000}$ from the legal standard, nor of silver, if the difference exceed $\frac{3}{1000}$.

23. Declares how the melter and refiner shall be debited and credited in his account with the treasurer, and that he shall have an allowance for waste not exceeding $\frac{2}{1000}$ of the bullion received from the treasurer.

24. The treasurer shall, from time to time, deliver ingots for coinage to the chief coiner.

25. Declares the deviations from the weight that shall be allowed on the several coins. (See Appendix, No. IV.)

26. The chief coiner shall, from time to time, deliver over the coins to the treasurer, to be carefully weighed, and those not found satisfactory, he shall deliver to the melter and refiner, to be again formed into ingots.

27. A part of the coins delivered by the chief coiner to the treasurer shall be labelled and preserved by the treasurer and assayer, in a chest* kept for that purpose, for the annual trial of the coins.

28. The chief coiner shall deliver the clippings and other remnants of bullion to the treasurer.

29. Declares how the chief coiner shall be debited and credited in his account with the treasurer; and that he shall have an allowance for waste, not exceeding $\frac{2}{1000}$ of the silver, and $\frac{1}{1000}$ of the gold delivered to him.

* This is what, at the English mint, is called *the pix.*

30. Coins shall be paid to the depositors, on warrant from the director, in the order in which the deposits were received, and the wishes of the depositors, as to the species of coin, shall be complied with, unless it be inconvenient to the bank.

31. The secretary of the treasury shall keep in the mint, at his discretion, money or bullion not exceeding one million of dollars, for the purpose of paying depositors without delay and without deduction.

32. Provides for an annual trial of the coins reserved for this purpose, before a federal district judge, the district attorney, the collector of Philadelphia, and such persons as the president shall designate, a majority of whom shall, in the presence of the officers of the mint, have such examination as they deem sufficient; and if it prove satisfactory, they shall so report, and if otherwise, they shall report the same to the president, who may, on a view of the circumstances of the case, remove the officer implicated.

33, 34. Copper planchets shall be purchased by the treasurer, under the instructions of the director, be delivered to the chief coiner, and when coined, be returned to the treasurer without allowance for waste.

35. The treasurer shall deliver copper coins, in exchange for other money, to persons applying, provided the amount be within the limits prescribed by the director.

36. The copper coins may also be delivered in any of the principal cities and towns, at the discretion of the director of the mint.

37. The money received for the copper coins shall be a fund in the hands of the treasurer, for purchasing planchets, and paying for the transportation of the coins, and for defraying the contingent expenses of the mint.

38. Repeals all acts inconsistent with this.

VI.

TABLE *of the amount of the precious Metals which have been extracted from the American Mines, from the time of their discovery, in* 1492, *to* 1830, *according to Baron Humboldt, Mr. Ward, Mr. Jacob, and others, with the average annual produce, and the proportion of Gold to Silver, at different periods.*

Epochs.	No. of y'rs	Gold.	Silver.	BothMetals.	Average annual produce.	Prop. of Gold to Silver.
		dollars.	dollars.	dollars.	dollars.	
1492 to 1545	53	90 mill's	30 mill's	120 mill's	2,264,150	3 to 1
1546 " 1600	55	150 "	630 "	780 "	14,181,818	1 " 4.2
1601 " 1650	50	138 "	613 "	751 "	15,020,000	1 " 4.4
1651 " 1700	50	187 "	603 "	790 "	15,800,000	1 " 3.2
1701 " 1750	50	600 "	620 "	1220 "	24,400,000	1 " 1
1751 " 1800	50	510 "	1230 "	1740 "	34,800,000	1 " 2.4
1801 " 1810	10	100 "	330 "	430 "	43,000,000	1 " 3.3
1811 " 1830	*20	80 "	310 "	390 "	19,500,000	1 " 3.8
Total,	338	1855 mill's	4366 mill's	6221 mill's		1 " 2.35

* The accounts of the produce of the mines for the last twenty years in the Table differ too widely to be reconciled. Thus Mr. Jacob estimates it at 380,000,000 of dollars, and Mr. McCulloch on the reports of the English Consuls, at about 260,000,000. But later accounts than Mr. Jacob's show that he had overrated the produce of Columbia, and probably of Peru, while he had underrated that of Mexico, Brazil, Chili, and Buenos Ayres. On the other hand, the returns of the Consuls, the basis of Mr. McCulloch's estimate, are manifestly short of the truth, as they take no notice of the produce of Columbia, except as to what is given to Panama, and this is stated at only a million a year, at a period when Humboldt, confessedly the highest authority, had estimated it at near 3,000,000 a year. I have, therefore, in computing the produce of the twenty years preceding 1830, availed myself of the reports of the English Consuls as to Mexico, Chili and Buenos Ayres, which exceed Mr. Jacob's estimate for those countries by about 19,000,000, and have added, from the data afforded by Mr. Jacob, Mr. McCulloch, and others, for Peru, Columbia and Brazil, 95,000,000, by which a result is obtained of 390,000,000, that is probably not remote from the truth.

VII.

TABLES RELATIVE TO THE BANKS OF THE U. STATES.

1. TABLE *showing the Number and Condition of all the Banks in the United States, on the 1st of January, 1837, according to the Report of Mr. Woodbury, Secretary of the Treasury, dated January 8, 1836.**

States, &c.	No. of banks and branches.	Principal Debts. †			Principal Assets. †	
		Capital.	Circulation.	Deposits.	Specie.	Loans.
Maine,	55	5,226,700	1,912,418	1,242,540	387,169	7,821,083
N. Hampshire,	27	2,839,508	1,662,952	1,147,373		4,829,562
Vermont,	19	1,125,624	2,086,860	348,875	76,802	2,594,675
Massachusetts	117	34,478,110	10,892,249	8,784,516	1,455,230	56,643,171
Rhode Island,	62	9,837,171	1,864,132	2,113,260	243,482	13,401,344
Connecticut,	34	6,665,607	4,094,681	1,869,369	426,290	13,361,928
New York,	100	37,101,460	24,198,000	30,883,179	6,557,020	79,313,188
New Jersey,	49	4,142,031	1,918,017	1,869,254	496,917	9,341,797
Pennsylvania,	25	23,750,338	13,794,014	12,902,251	3,113,990	44,601,933
Delaware,	8	818,020	718,948	563,985	141,956	1,599,168
Maryland,	23	10,438,655	3,310,835	4,840,477	1,139,347	14,986,487
D. Columbia,	7	2,204,445	1,136,557	1,950,736	438,327	4,204,519
Virginia,	23	6,731,200	9,107,347	5,309,554	1,624,899	18,621,429
N. Carolina,	10	2,525,000	3,319,498	1,387,120	883,011	5,769,094
S. Carolina,	12	8,636,118	7,223,616	5,048,477	1,664,786	18,899,838
Georgia,	32	11,438,828	8,058,739	2,943,632	2,860,326	16,692,215
Florida Ter.	5	2,113,302	774,040	493,623	145,842	2,652,614
Louisiana,	47	36,769,455	7,909,788	11,487,431	3,108,416	59,108,741
Alabama,	7	7,572,176	7,090,819	3,073,979	1,572,246	18,133,788
Mississippi,	18	12,872,815	5,073,425	5,345,384	1,369,457	24,351,414
Tennessee,	11	5,092,665	4,272,635	2,230,833	378,930	10,960,368
Kentucky,	14	7,145,326	4,105,155	3,428,666	1,456,384	11,631,475
Missouri,	1			2,262,900	222,924	1,398,811
Ohio,	33	9,247,296	8,326,974	7,590,933	3,153,334	18,178,699
Indiana,	11	1,585,481	1,970,595	2,738,405	1,204,737	3,179,271
Illinois,	8	2,014,760	1,565,373	828,644	590,794	3,098,751
Michigan,	11	1,400,000	1,350,325	2,379,380	564,275	2,946,647
	767	255,772,091	137,737,922	125,064,776	35,276,891	467,722,693
Pen. B. of U.S.	19	35,000,000	11,447,968	2,332,409	2,638,449	57,393,709
	788	290,772,091	149,185,890	127,397,185	37,915,340	525,115,702

* As to some two or three of the smaller states, and as to a few banks in others the preceding statement refers to a somewhat earlier date, that is, 1836, or the latter part of 1835; but these errors can have but an inconsiderable effect on the result.

† The debits and credits in the preceding table will not balance each other, because there are, in the report of the Secretary, a number of other small items on either side of the account which are here omitted,— as real estate, stocks, specie funds due to other banks, &c. As these details, without much affecting the general result, are more likely to perplex than to enlighten the subject, it was thought better to exhibit only the great items of debit and credit. The omitted items have no bearing on the amount of either the capital or loans.

2. TABLE *showing the number and condition of all the Banks in the United States on the* 1st *of January*, 1838, *distributed under five geographical divisions, and a division for the Bank of the United States, according to Mr. Woodbury's Report, dated June* 7, 1838.*

Local Divisions.	No. of Banks.	Principal Debts.			Principal Assets.	
		Capital.	Notes in circulation.	Deposits.	Specie.	Loans, &c.
Eastern States,	321	65,257,540	18,307,544	11,412,803	2,902,980	93,575,135
Middle,	213	81,169,776	29,631,248	31,999,806	9,937,187	127,740,077
Southern,	89	32,111,573	20,156,891	9,707,821	6,145,384	55,337,073
Southwestern,	94	75,048,052	25,194,559	18,874,996	4,984,616	122,305,066
Western,	92	29,049,837	16,080,601	10,078,505	7,443,103	40,492,662
Penn. Bank U. S.†	20	35,000,000	6,768,067	2,617,253	3,770,842	45,181,854
Total,	829	317,636,778	116,138,910	84,691,184	35,184,112	484,631,867

* It will be perceived that this statement, compared with the preceding, exhibits an increase in the number of banks forty-one, and of capital twenty-seven millions; but a decrease in all the other items, both of debit and credit.

† This Bank, now existing under a charter from the State of Pennsylvania, may be added to the banks of the middle states; but, as its capital is owned in every part of the union, and as a large part of it is employed in banking in other states, it seems to form a class by itself.

3. TABLE *of the number of Banks and amount of Bank Capital in the five great geograpical divisions of the United States, and in the National Bank, at six periods, from* 1792 *to* 1838, *according to Mr. Woodbury's Report of January* 8, 1838.

Local Divisions.	1792.		1801.		1811.		1820.		1830.		1838.	
	No. of Banks.	Capital authorized.	No. of Banks.	Capital authorized.	No. of Banks.	Capital estimated.	No. of Banks.	Capital estimated.	No. of Banks.	Capital estimated.	No. of Banks.	Capital estimated.
Eastern States,	5	4,100,000	18	7,620,000	47	12,207,394	92	19,862,194	172	35,297,869	319	65,257,540
Middle,	5	4,160,000	12	12,930,000	25	21,652,247	116	49,009,853	115	47,666,984	205	81,169,776
Southern,	1	675,000	2	3,000,000	9	6,761,000	16	16,053,589	22	17,675,129	50	32,111,573
S. Western,					2	854,000	16	6,086,314	8	7,997,300	42	75,048,052
Western,					5	1,135,460	67	11,198,661	12	1,554,386	62	29,049,837
Bank U. S.	1	10,000,000	1	10,000,000	1	10,000,000	1	35,000,000	1	35,000,000	1	35,000,000
	12	18,935,000	33	33,550,000	89	52,610,101	308	137,210,611	330	145,191,668	679	317,636,778

4. TABLE *of the amount of Capital per head in the United States, and in each of their five geographical divisions, at three different periods, from the year* 1820 *to* 1838, *together with the amount of Circulation, of Specie, and of Loans, per head, on the* 1st *of January*, 1838.

Local Divisions.	1820.		1830.		1838.				
	Population.	Capital per head.	Population.	Capital per head.	Supposed Population.*	Capital per head.	Circulat. per head.	Specie per head.	Loans per head.
Eastern States,	1,659,808	$11.9	1,955,207	$18.	2,204,000	$29.6	$8.3	$1.3	$42.4
Middle,	3,179,444	15.4	4,151,502	11.5	4,880,000	16.6	6.	2.	26.2
Southern,	2,581,005	6.2	3,082,130	5.7	3,510,000	9.	5.7	1.7	18.3
Southwestern,	779,569	10.2	1,374,179	5.8	2,010,000	37.	12.5	2.4	60.8
Western,	1,414,726	7.9	2,298,390	.7	3,230,000	8.	5.	2.3	12.5
Average in U. S.	9,614,552	14.3	12,861,408	11.3	15,834,000	†20.	7.	2.2	36.7

* In estimating the population in 1838, I have assumed that the ratio of increase has been in each division the same from 1830 to 1838, as it was from 1820 to 1830. Though this is unquestionably true as to the whole, I am aware it will not be true as to the several parts,—Mississippi and some of the other western states having experienced an increasing ratio, and Virginia and some of the other Atlantic states having probably augmented in a decreasing ratio. The error, however, would not materially affect the result of the preceding table.

† It must be recollected that the Bank of the United States is omitted in this table. We must, therefore, add its capital, circulation, &c., to obtain the just proportion of each, per head.

5. TABLE *showing the amount of Capital per head in each separate State in* 1830; *the proportion of Circulation to Capital, and of Specie to Capital, in* 1820, 1830, *and* 1837, *and the proportion of Loans to Capital in* 1830 *and* 1837, *computed from the statements made by Mr. Gallatin, in his Essay on Banks and Currency, p.* 102, *and Mr. Woodbury's Report of January* 8, 1838, *p.* 846.

States.	Capital per head	Proportion of Circulation* to Capital.			Proportion of Specie to Capital.			Proportion of Loans to Capital.	
	1830	1820	1830	1837	1820	1830	1837	1830	1837
	Dollars.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Maine,	5.1	100	50	60	31.5	10.5	7.4	125	149
New Hampshire,	6.7	70	51	99	22.8	22.6	†	132	170
Vermont,	1.5	513	186	216	110.	99.	6.8	198	230
Massachusetts,	33.5	55	35	54	2.7	4.8	4.2	140	164
Rhode Island,	62.9	42	25	41	13.6	5.6	2.4	112	136
Connecticut,	14.9	46	53	69	9.5	9.	5.	113	154
New York,	10.5	94	117	148	14.5	10.	17.6	130	214
New Jersey,	6.3	122	81	91	10.	10.	12.	136	225
Pennsylvania,	10.8	59	110	114	15.5	18.8	13.	167	184
Delaware,	10.7	62	81	156	12.	20.	17.3		195
Maryland,	13.6	83	65	78	24.3	14.	11.	120	143
Dist. Columbia,		43	39	140	4.7	5.8	19.8	225	214
Virginia,	4.6	66	104	214	18.	15.	24.	138	267
North Carolina,	4.3	151	59	181	23.7	5.6	35.	145	228
South Carolina,	8.	76	170	142	16.	11.	19.5	225	214
Georgia,	8.1	139	97	96	24.	31.	25.	149	146
Louisiana,	26.3	86	71	53	31.4	32.	8.4	146	160
Alabama,	27.9	350	133	134	60.	25.6	20.5	478	239
Mississippi,	7.	54	112	81	8.8	8.	10.6	203	189
Tennessee,	10.8	76	50	128	18.	10.6	7.5	85	213
Kentucky,		43		105	16.		20.3		160
Missouri,		363			101.				
Ohio,		97		172	25.5		34.		196
Indiana,		243		297	42.7		77.		200
Illinois,		144		118	53.		29.3		153
Average in U. S.	11.3	73	75	91	17.	12.6	13.	144	180

* Circulation here is used in its largest sense, and comprehends both issues and deposits.

† Though the banks of this state appear by the table to be without specie, in another column they are stated to have "specie funds" to the amount of $790,175.

VIII.

Extract of a Report made by a Committee of the Senate of Massachusetts, Feb. 13, 1838, *relative to the failure of the Kilby Bank.*

"Having examined the liabilities and assets of the bank, the committee proceeded to inquire into the manner in which it was put into operation.

"The Kilby Bank was chartered April 15, 1836, and commenced operations on the 30th of November following. There were twenty-nine original subscribers for the stock, six of whom subscribed for 4500 shares. Five of them were the first board of directors. By the books, the whole of the capital purports to have been paid in on the days last mentioned. By the testimony of the president and a part of the directors, it appears that these large subscribers obtained loans of other persons to pay the amount of their stock, with an understanding among themselves, that they were to have a loan at the bank to that amount immediately after it should have commenced business. With current bills, and with checks upon other banks so obtained, the stock was all paid in. With one half of these funds, specie was obtained from other banks to the amount required by law, with an understanding that the whole amount, except twenty or thirty thousand dollars, should be re-exchanged for the same, or other funds, as soon as the bank went into operation.

"It appears by the first discount sheet, under date of November 30th, *that there was discounted, on that day, to the six stockholders above mentioned,* $450,000, in sums of 80,000 each, to the five who were directors, and $50,000 to the sixth. According to the testimony of the president, this loan was made upon their several notes,

secured in some cases by endorsers, in others by notes and other securities as collateral, but in no case by a pledge of Kilby stock.

"With regard to the manner in which the specie was obtained and placed in the vaults of the bank, *the directors do not pretend that they have complied with the spirit of the law, but they allege that they pursued the same course as has been adopted by a majority of the banks chartered in this Commonwealth within the last two years; and your committee believe the allegation to be substantially correct*, not meaning to extend the remark to the manner in which the funds were obtained by means of which the specie was procured.

* * * * * *

"It is due to those of the present board of directors, who put this bank in operation, to state that several of them testified before the committee, that, within their own knowledge the same course had been pursued by several other banks, which have been established within the last few years, and that they believed it to have been adopted by others chartered for this city, [Boston] within that time. *The practice, they say, has been thus; a few individuals associate for the purpose of establishing a bank; they obtain a charter, subscribe for the stock, put the bank in operation, as was done in the case of the Kilby Bank, obtain loans to the amount of the stock subscribed, and have them renewed until the shares are disposed of to those who have capital to invest.* How extensive this practice has been, your committee have not the means of deciding. It is alleged by the directors of the bank, that it has been of late quite common in this city, and that however they may have violated the law, they have only conformed to custom."

We are furnished with evidence of a similar abuse in the opposite extreme of the union, by a report of the Bank Commissioners of Mississippi, dated January 12, 1838. After a review of the condition and prospects of

the banks of that State, and recommending seven very salutary restrictions on those institutions, they add:

"The manner in which bank stock is usually paid in, calls loudly for the interference of the Legislature. In most instances, not by means of cash, but merely bank credits in the form of loans from other banks for one instalment, and stock notes for the balance; the actual operation of which is, to make the apparent lender the actual borrower. * * * *

"If purchasers of stock were prohibited from transferring it until every instalment was paid, there would be little incentive for stock speculations when a bank came into existence, fewer petitions for bank charters, and a more healthy and legitimate bank action."

IX.

The following rates of dividends in the banks of different States, formed from such materials as Mr. Woodbury's bank reports furnish, show that the profits of these institutions have been greatly overrated by the public, and have no doubt very generally fallen short of the expectations of the shareholders. After making every allowance for the general disposition of adventurers to estimate gains that are irregular and precarious too highly, the moderate profits of banks would seem to show that other causes than the mere view to profit as shareholders have concurred to the extreme multiplication of banks in the United States.

	Per cent.
In Maine, 1837, on 36 of 53 banks they divided 6 per cent. or less, and in 17 they were above 3 per cent	
The general average was	6 ½

		Per cent.
Massachusetts,	1835, semi-annual dividend of all its banks, 2.91 1836, " " " " " 3.43	6¼
Rhode Island,	1836, 29 of 55 banks divided more than 6 per cent. and 26 divided 6 per cent. or less; average not stated.	
Connecticut,	1837, the average dividend of 30 banks was	7⅕
New York,*	1834, 1835, the average dividend of 22 banks in the city of New York and Brooklyn was	7 1/10
New Jersey,	1837, the average dividend of 23 banks was	6½
Pennsylvania,	1835, 8 banks of Philadelphia reported to the legislature their dividends, which averaged	9½
Maryland,	1836, 1837, 12 Baltimore banks reported their dividends for two years, to January, 1838, averaged	6⅘
Virginia,†	1828 to 1837, average dividends for 10 years of Bank Virginia,	6⅔
	Do. of Farmers' Bank,	5⅔
	Do. of Bank of the Valley,	6⅔
S. Carolina,	1836, average dividends of seven banks for six months, 4.3 =	8⅗
Tennessee,	1834, 1837, dividends of the Union Bank for 4 years,	8¼
Kentucky,	1836, 1837, dividends of the principal bank of the state for two years, per annum,	7½
Ohio,	1837, the dividends of 9 banks, as shown by their reports to the legislature, average	8⅓
Indiana,	1836, in the State Bank and branches, the average dividend was	9⅕

NOTE. It must be recollected that the preceding estimate comprehends in general the banks in the best credit, while those which have been temporarily prevented from making dividends, or which have failed altogether, if added to the list, would necessarily lower the general averages.

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* Williams's Register.

† The profits of the banks of this state would have permitted much larger dividends, but a portion was set apart to replace a large amount, which the bank had lost by insolvency.

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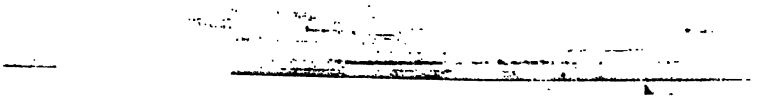

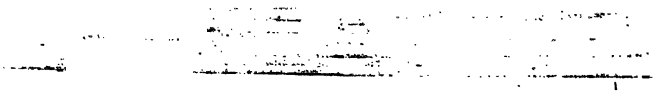

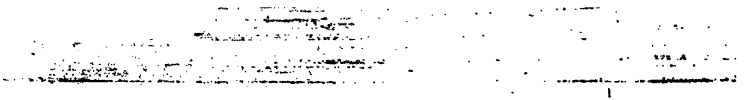

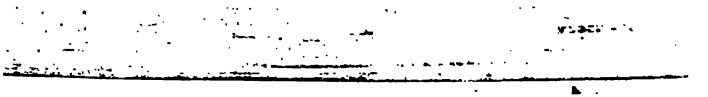

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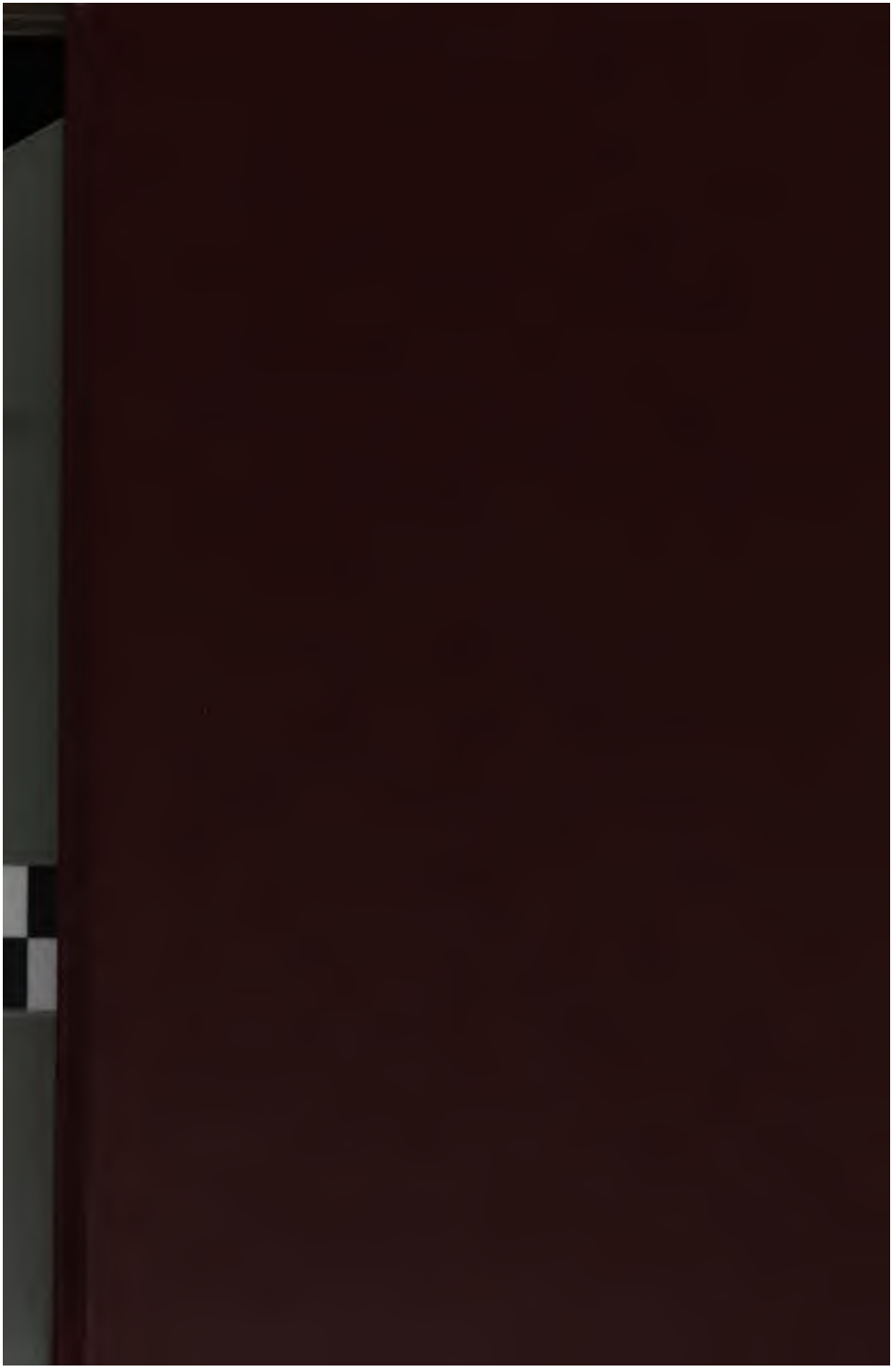
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